

# Service Industries

Since the 1960s, the Korean industrial structure has changed from traditional agricultural-, forestry-, and livestock-based primary industries to manufacturing-based secondary industries led by the government's manufacturing promotion policies. But manufacturing reached its peak in the 1990s and currently service industries are growing continuously and have become the main foundation of the Korean economy.

Service industries provide non-material products including commerce, food and lodging, tourism, transportation, communication, finance, real estate, health and medical care, and so forth. Unlike manufacturing, the final products of service industries are non-material—they cannot be stored and have to be consumed immediately. Consequently, production and consumption in service industries cannot be separated by time and space and have to be integrated, i.e., the time and place of production and consumption are the same. However, with the recent development of communication technology

and the changes in societal perception regarding copyright, the previous limitation of time and space has, to a certain extent, been removed for some service industry products.

The spectrum of service industries is almost limitless as it includes all types of economic activities that satisfy human desires apart from material goods. The activities are diverse and vary from simple labor to complex knowledge dissemination, and from satisfying individual needs to assisting with various other production activities. Moreover, as the scale of the economy gets larger and the standard of living improves, the demand for various service sectors becomes more diverse and rapidly-changing. The categories of service industries have expanded and the activities have become more complex. Producer services, those services assisting a business in conducting its operations, have gained more attention in recent years and play more important roles as they produce new jobs by counterbalancing the job losses

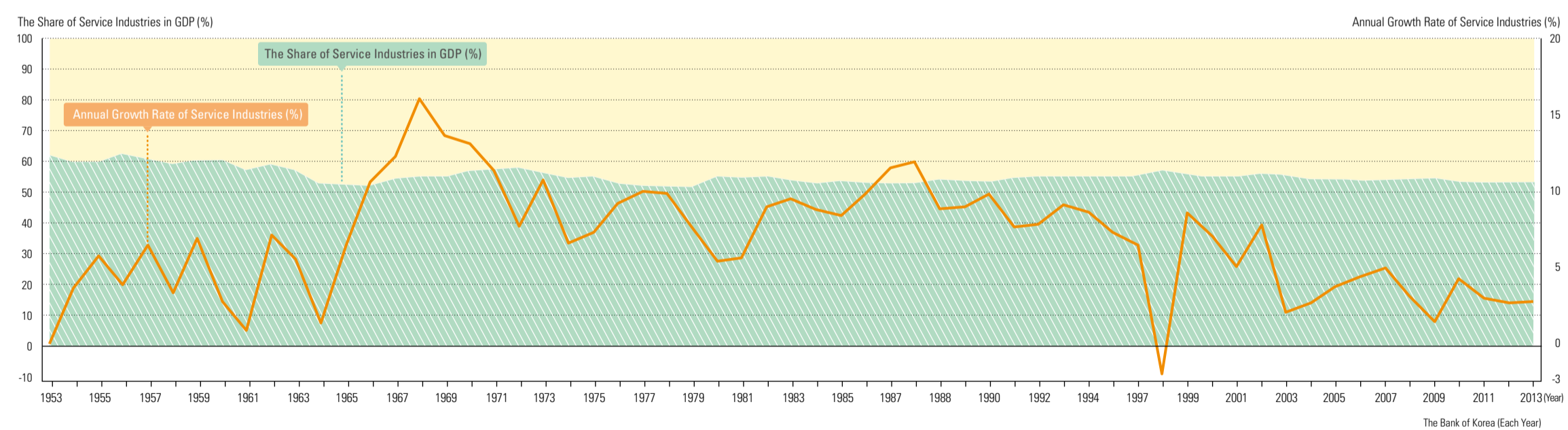
that were created by the declining manufacturing sector. Producer services are also important because they provide high technology jobs for other industrial activities.

Such vast and complex industrial service categories can be classified in a myriad of ways. They include service industries that handle the distribution of already produced goods such as in retailing and wholesaling; transportation and communication; and finance, insurance, and real estate that manages wealth and finance. Service industries were also extended to include other personal services that satisfy individual service activities as well as business services that help other producer services, and public services that help individuals and the public to participate in economic activities. A more common classification of service industries is the division by groups that demand services (i.e., consumer services and business services). The categories of consumer services include retail, lodging, leisure and tourism industries, personal

services, and public services. Producer services include transportation, warehousing, financing, insurance, real estate, research and development, and advertising.

According to the KSIC (Korean Standard Industry Code) classification by the Bureau of Statistics, the service industries of Korea can be divided into 13 classifications: • wholesale trade and retail trade services, • transportation services, • lodging and food industries, • publication, visual production, broadcasting communication, information services, • finance, insurance, real estate, and leasing properties services, • professional, scientific, and technological skills services, • social support services, • public administration, national defense, and social services administration services, • educational services, • health care and social welfare services, • art, sports, and entertainment related services, • organizations and associations services, and • repair services, and other personal services.

Growth of Service Industries (1953 – 2013)

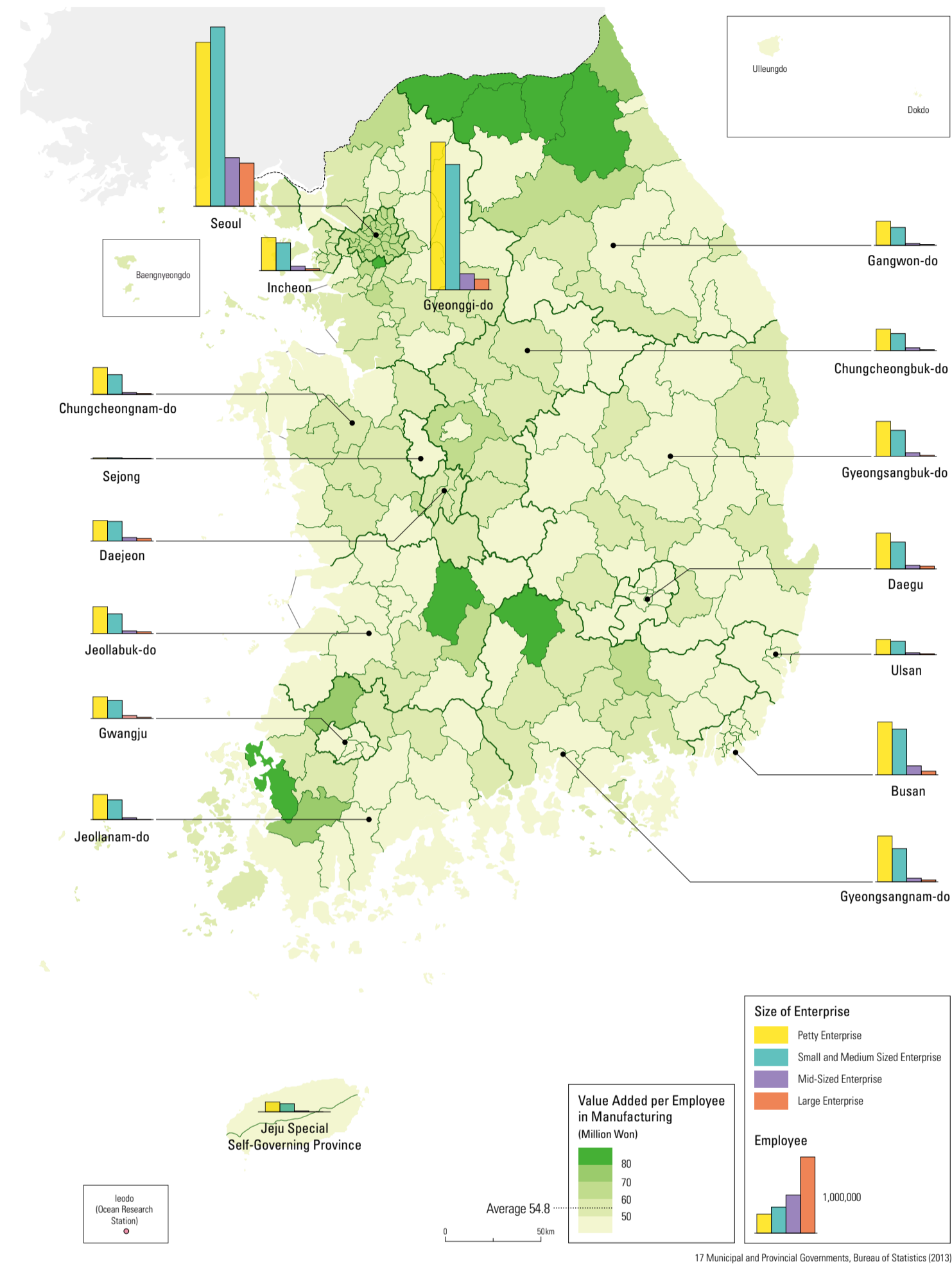


Classification of Service Industries in the Korean Standard Industry Code

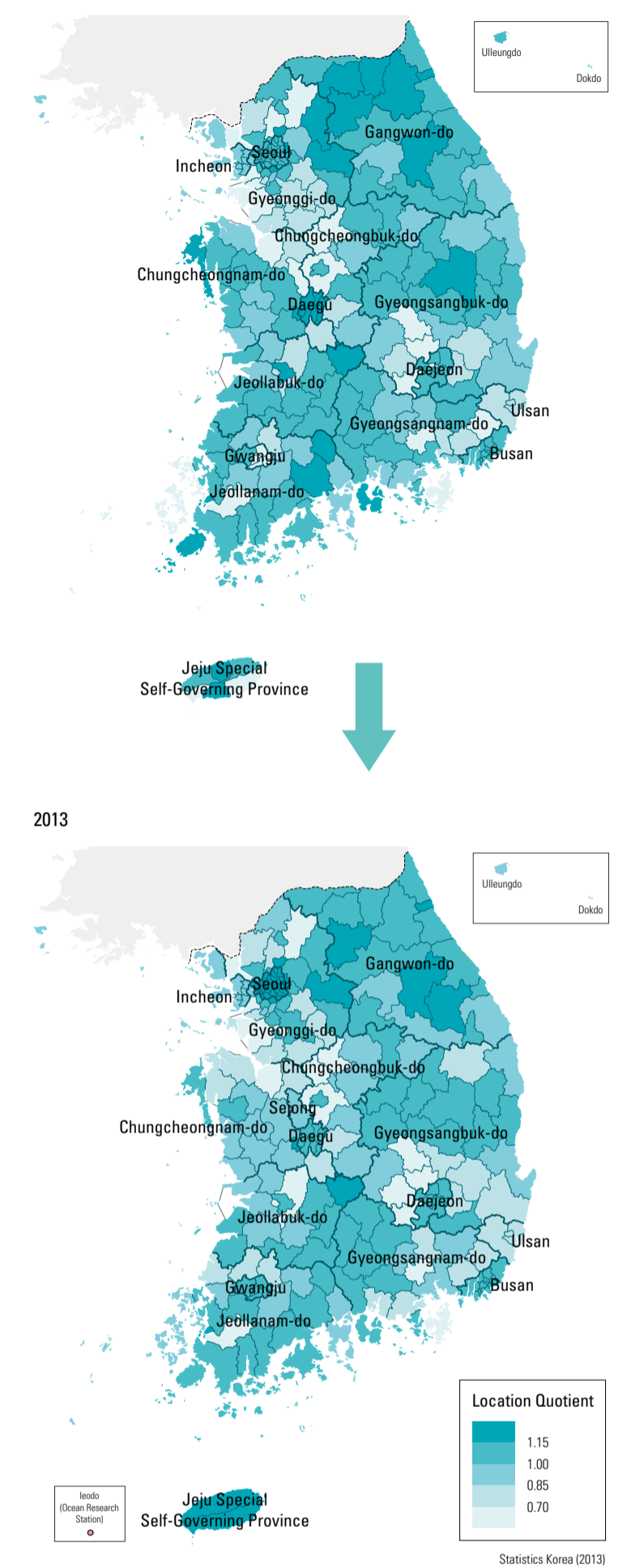
1st Class	Wholesale Trade and Retail Trade Services	Transportation Services	Lodging and Food Industries	Publication, Visual Production, Broadcasting Communication, Information Services	Finance, Insurance Services	Real Estate, and Leasing Properties Services	Professional, Scientific, and Technological Skills Services	Social Support Service	Public Administration, National Defense Services, and Social Services Administration Services	Educational Services	Health Care and Social Welfare Services	Art, Sports, and Entertainment Related Services	Organizations and Associations Services, Repair Services, and Other Personal Services
2nd Class	- Car And Components - Wholesale Trade - Retail Trade	- Transportation And Pipeline - Maritime Transportation - Airway Transportation - Warehousing Transportation	- Lodging Industry - Food Industry	- Publication - Visual Production - Broadcasting - Communication - Computer Programming, System Integration - Information Services	- Finance - Insurance	- Real Estate - Leasing Properties Services	- R&D - Professional Services - Construction - Scientific, And Technological Skills Services	- Landscaping Services - Social Support Services	- Public Administration, National Defense Services - Social Services - Administration Services	- Educational Services	- Health Care and Social Welfare Services	- Art And Leisure - Ports, and Entertainment Related Services	- Organizations and Associations Services - Repair Services - Other Personal Services

## Service Industry Overview

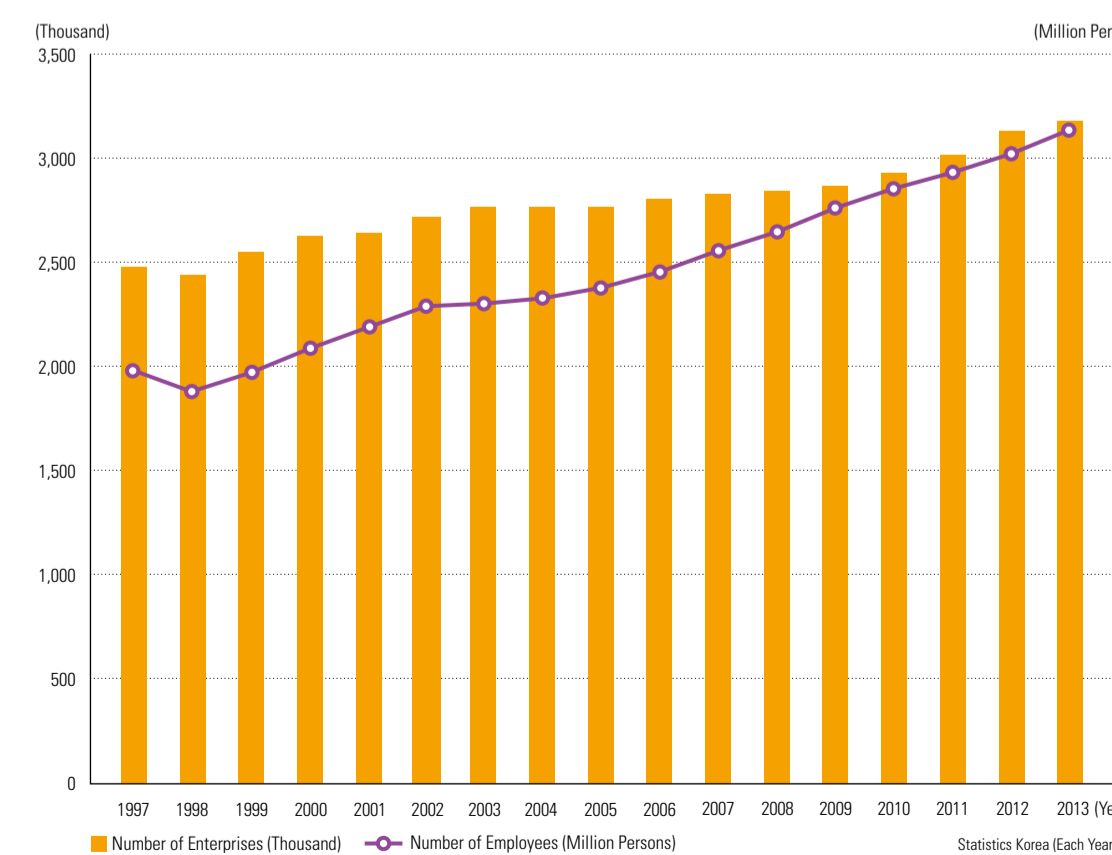
Enterprises and Employees in Service Industries (2013)



Location Quotient of Service Industry 2003



Growth of Enterprises and Employees in Service Industries



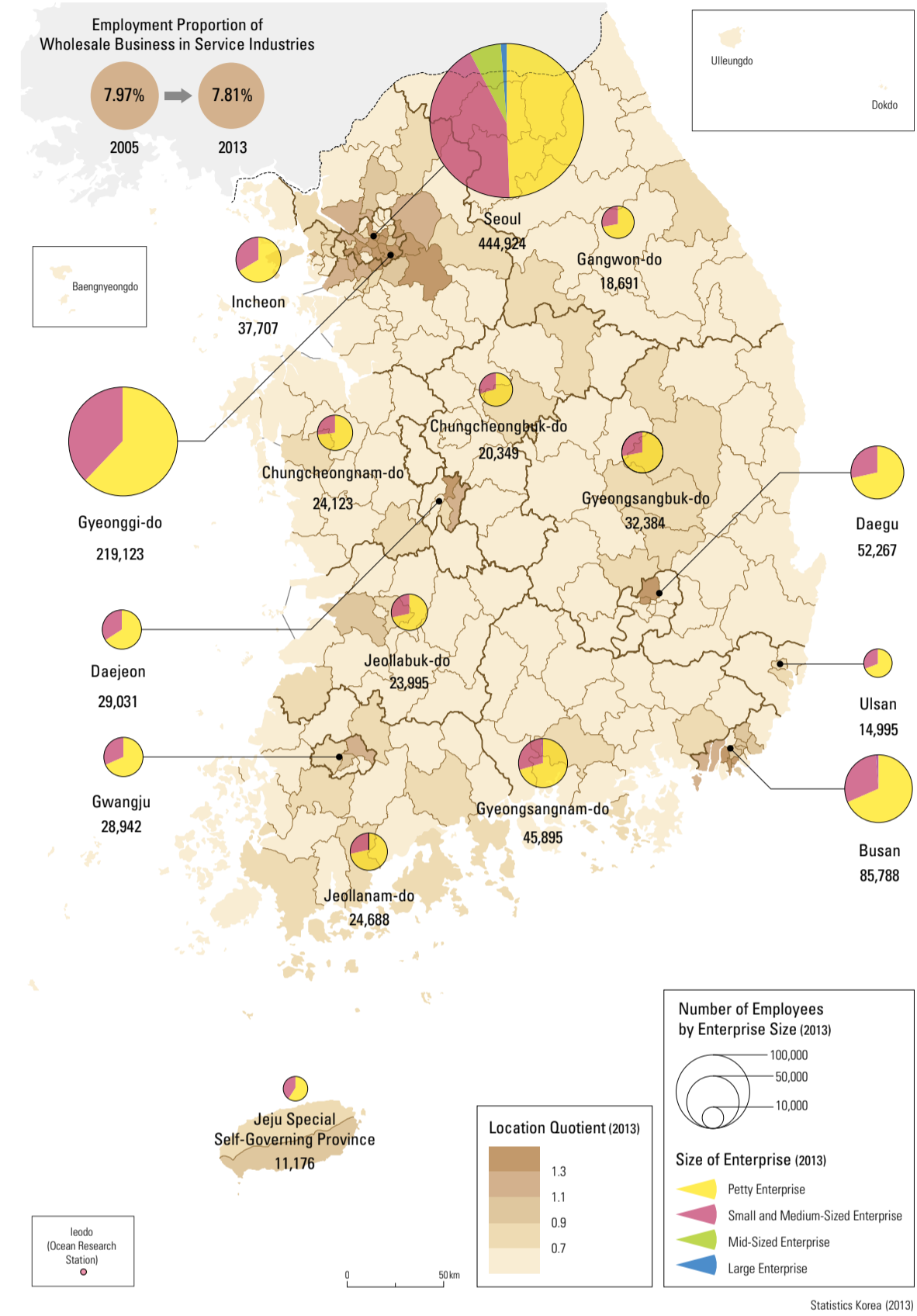
Today the service industry is a dominant industry in Korea. Traditionally the Korean industrial structure was centered on primary industries; however, since the 1960s when the five-year economic plans were initiated by the government-led industrialization policy, the manufacturing sector has accelerated. The rapidly growing trend for manufacturing industries eventually reached its peak in the 1990s and started to slow down. On the other hand, service industries have continued to grow until today. In 2013, the number of service industry business establishments had reached 3.2 million and accounted for 86.6% of the total number of industrial establishments. There were 14.2 million service workers, 74.1% of the total number of employees. The total sales for service industries were about 2 trillion US dollars, 51.2% of the total industrial sales. The service industry has continued its steady growth annually, with the exception of the economic crisis of 1997.

When comparing service industry employment among the greater metropolitan areas and provinces, the number of service employees in Seoul is 3.93 million, or 28.7% of the total number of service employees. Gyeonggi-do had 2.73 million (19.9%) and Busan had 0.99 million (7.2%). About half of the service workers were concentrated in the Greater Seoul Metropolitan Area (Seoul and Gyeonggi-do), which is similar to the geographic distribution of the population. The average number of employees per service establishment in 2013 was 4.5 persons, indicating that small businesses are dominating. In terms of the number of employees by the size of establishment, small businesses with fewer than 10 employees accounted for about half, or 46.9%, establishments with 10-299 employees accounted for 41.1%, indicating that most service establishments are small- and medium-sized businesses.

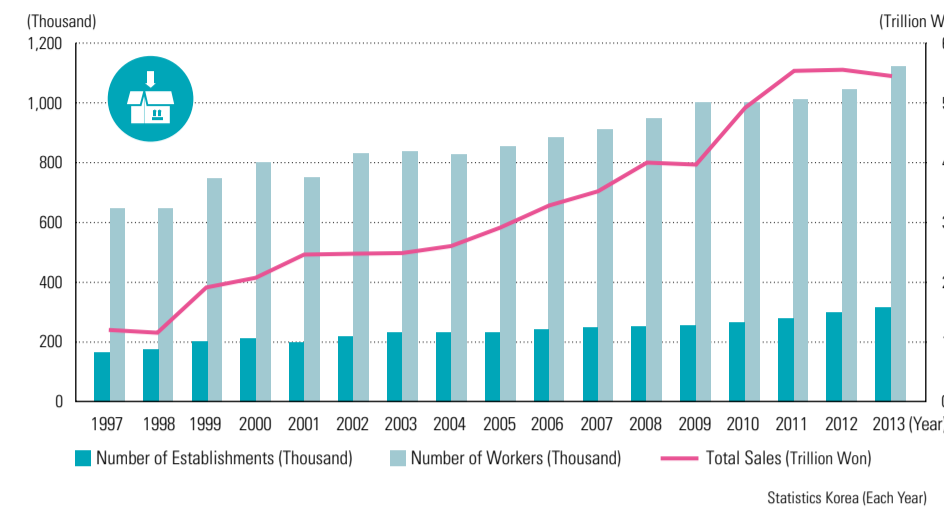


Wholesale Trade Services

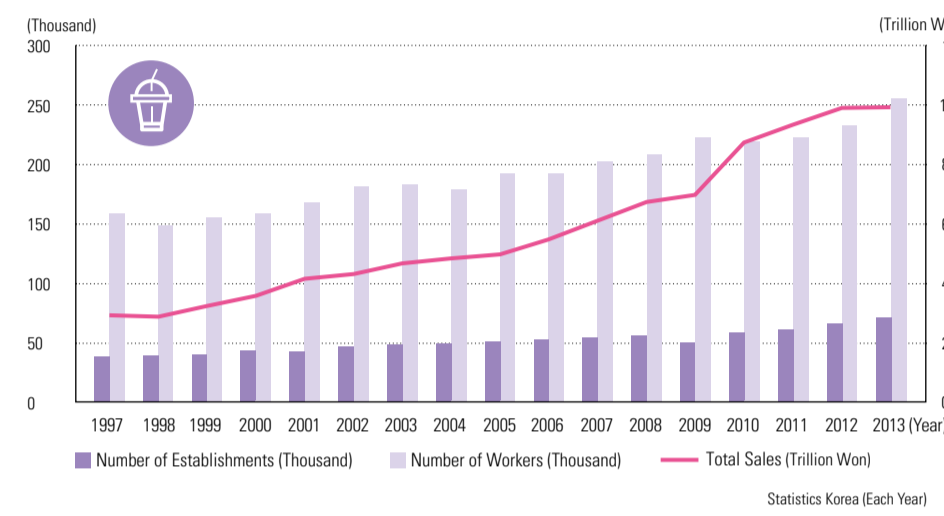
Wholesaling (2013)



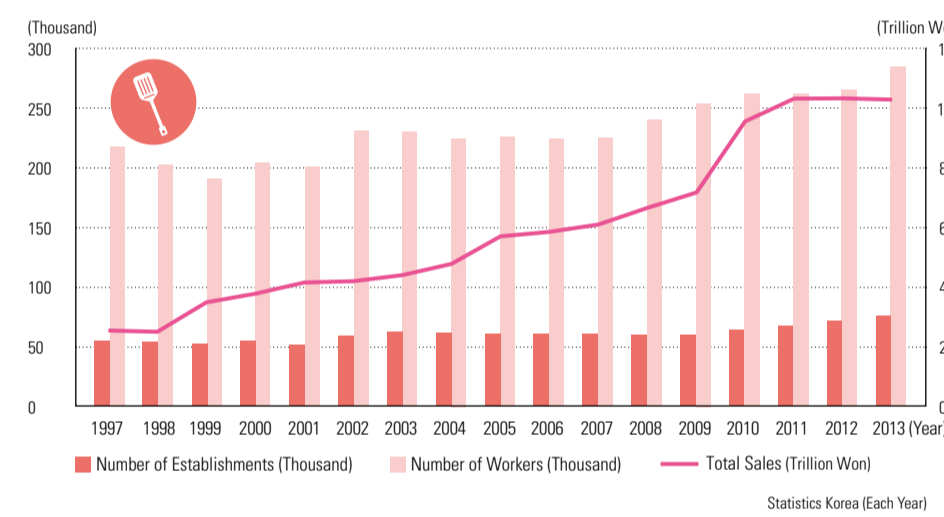
Wholesale Businesses



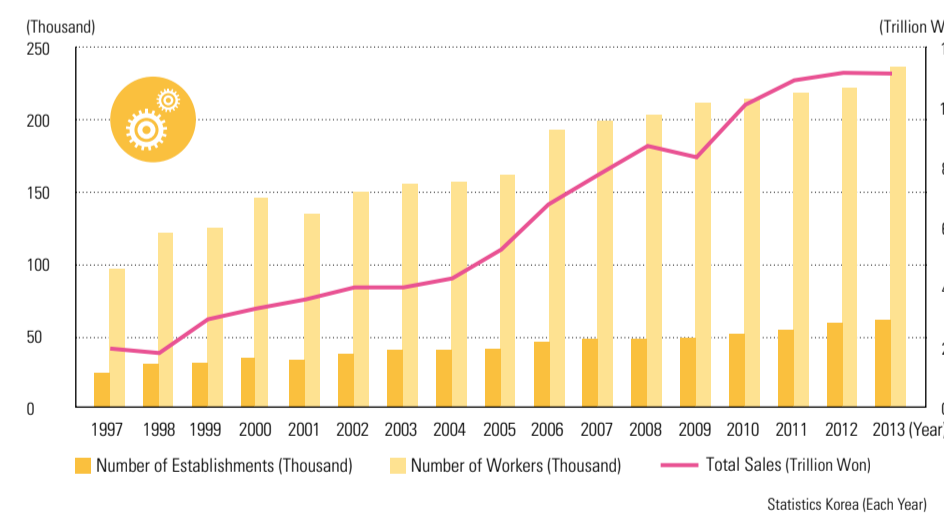
Wholesale of Food, Beverages, and Tobaccos



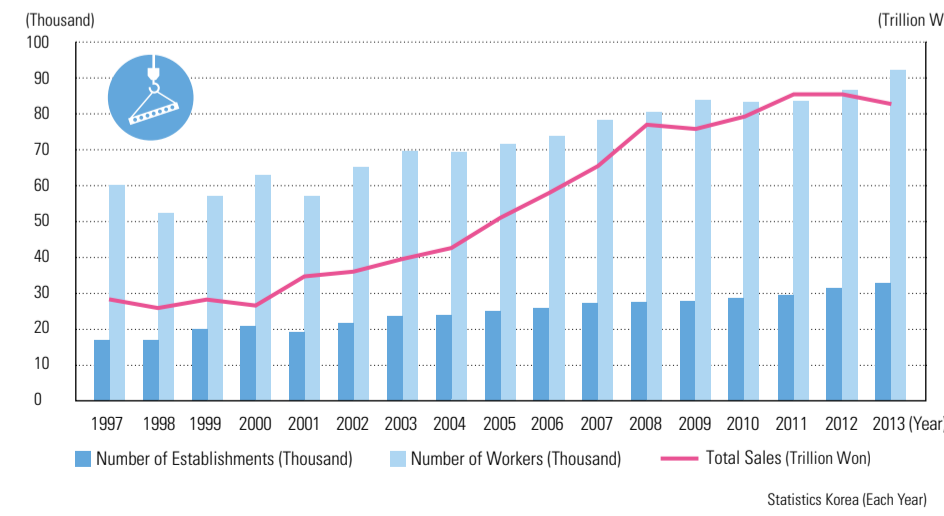
Wholesale of Household Goods



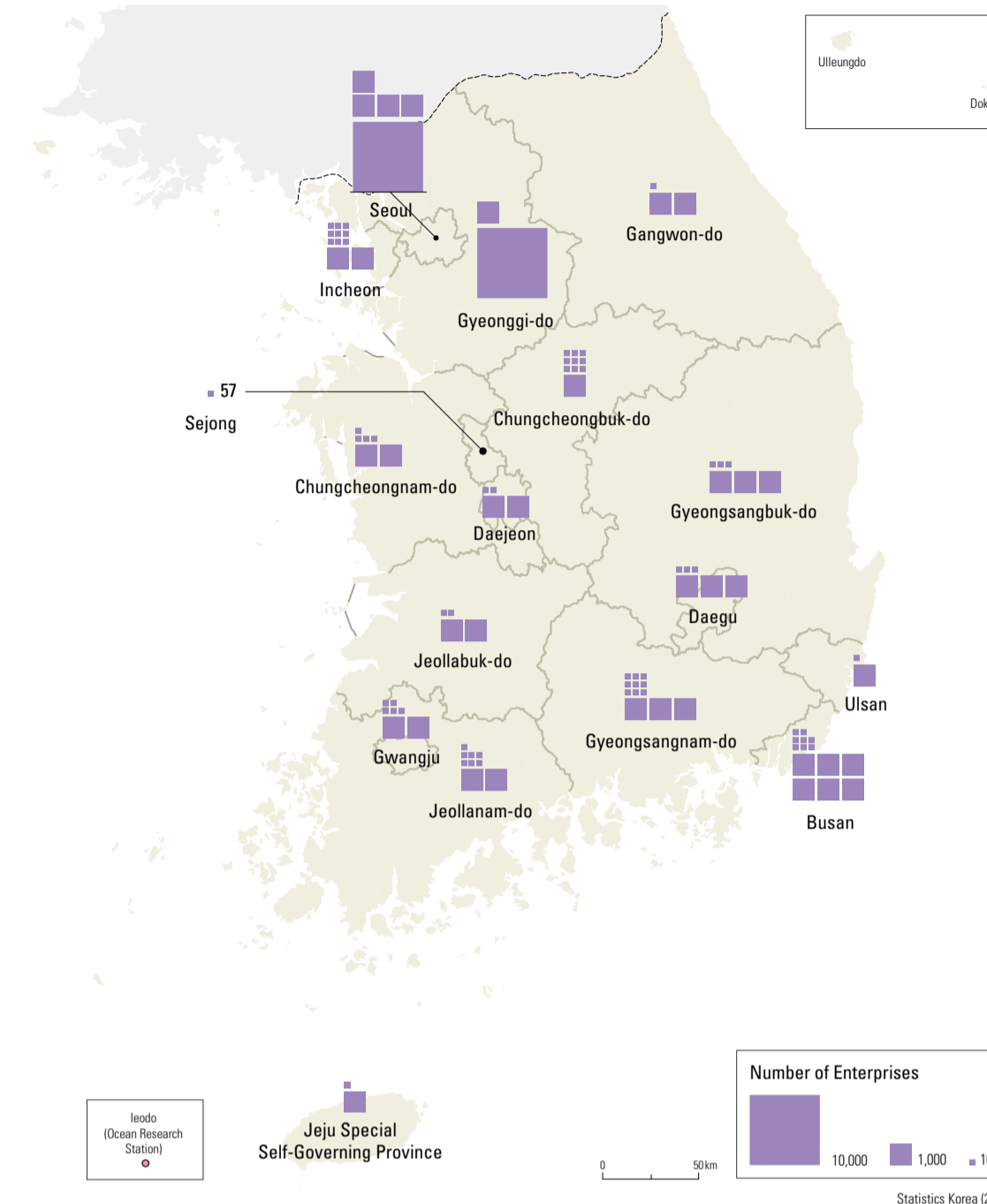
Wholesale of Machinery Equipment and Supplies



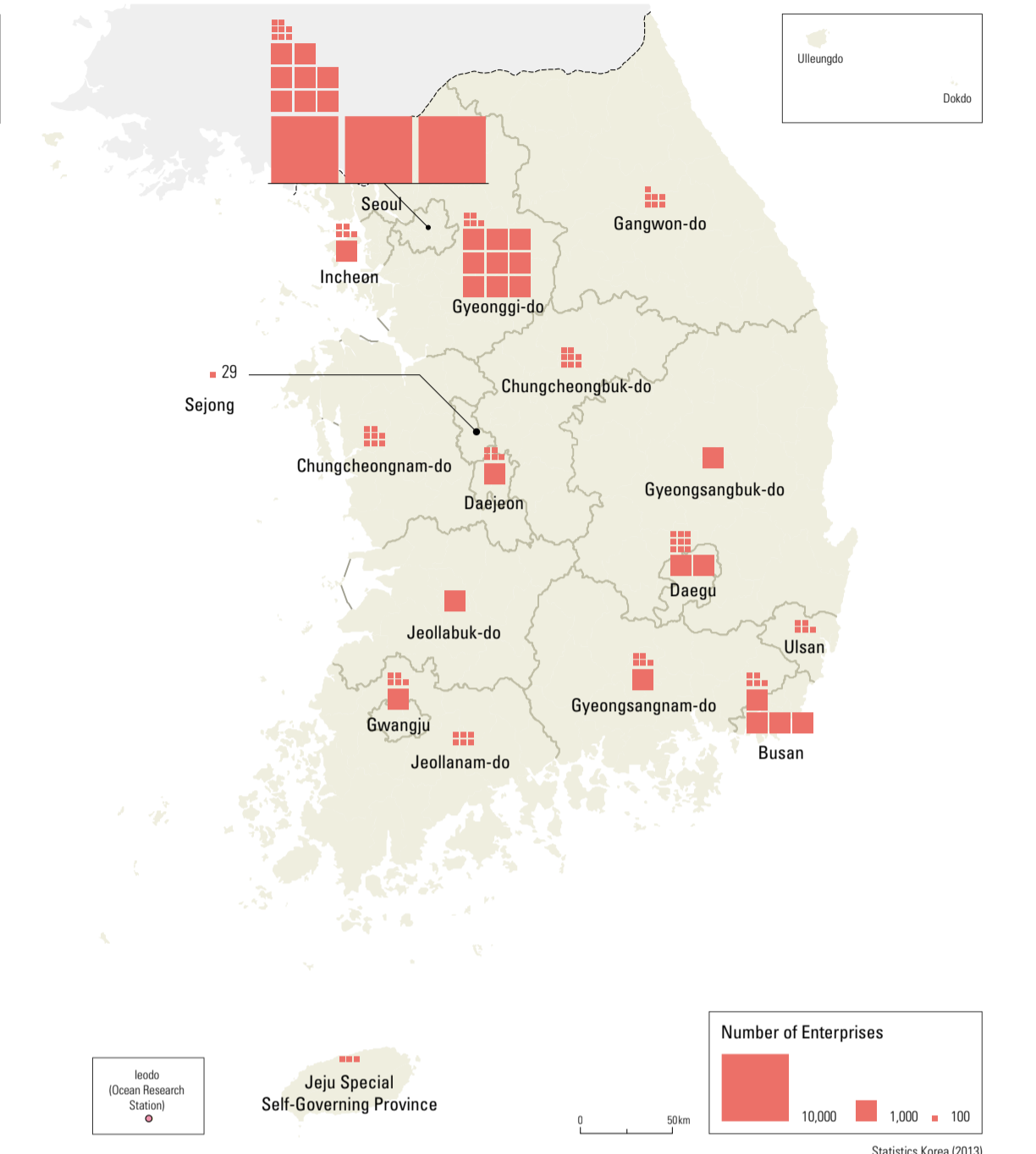
Wholesale of Construction Materials, Hardware, and Heating and Air Conditioning Equipment



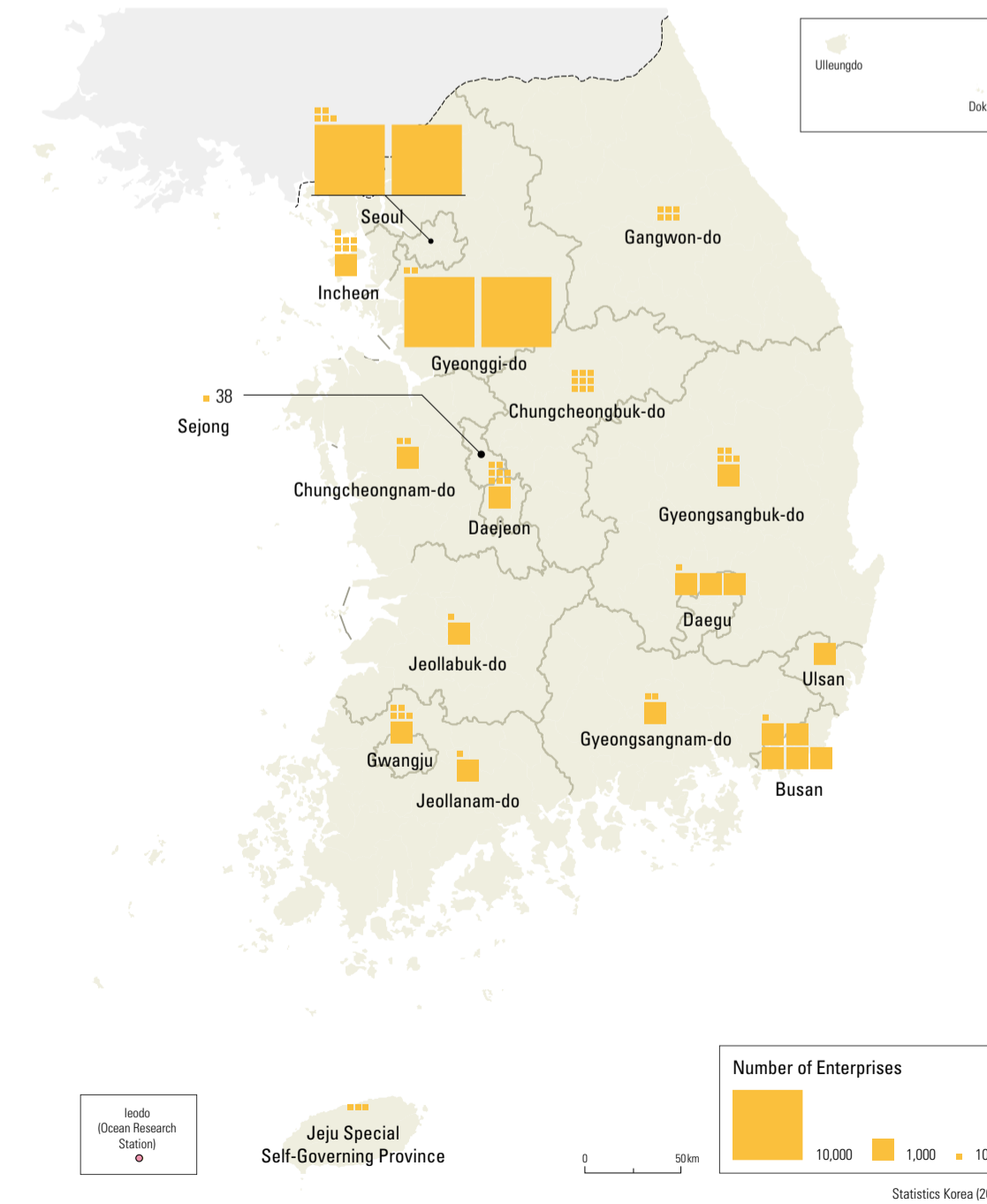
Wholesale of Food, Beverages, and Tobacco (2013)



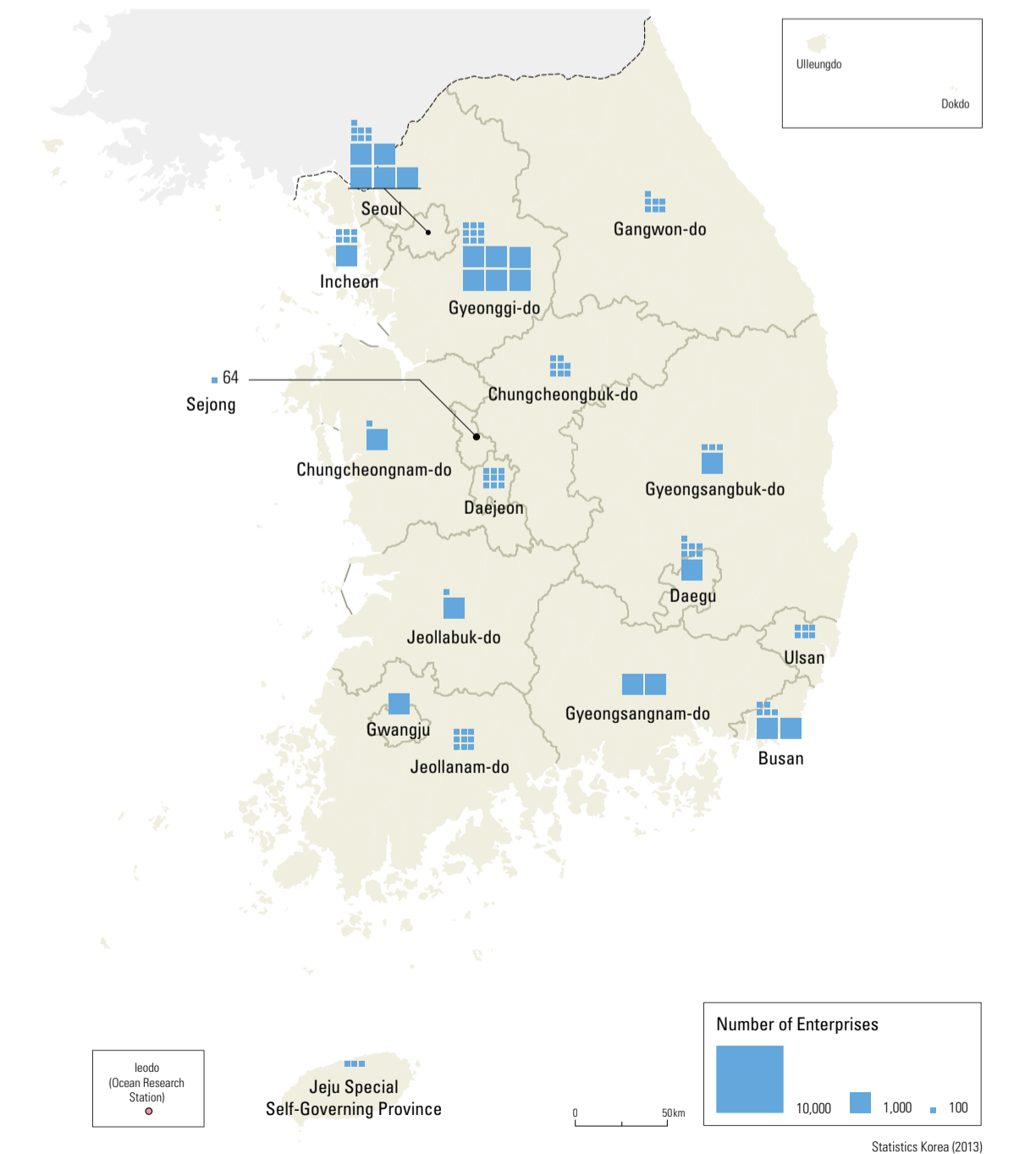
Wholesale of Household Goods (2013)



Wholesale of Machinery Equipment, and Supplies (2013)



Wholesale of Construction Materials, Hardware and Heating, and Air Conditioning Equipment (2013)



With the growth of manufacturing, the economy expands and income level improves; the volume of commodities transacted domestically and internationally become larger and more diverse. The distribution industry is one of the original service sectors that connects producers with consumers. Wholesale trade refers to economic activities for which middlemen conduct business for the purpose of resale to retailers, or to manufacturers, construction builders, and restaurant operators who utilize the raw material. Unlike retail trading, wholesalers do not deal with individuals or final consumers, but instead trade fewer items in large quantities.

In 2013, the number of wholesaling businesses amounted to 8.5% of the total service industry, and employed 7.8% of the total number of service workers. The overall trend for wholesale industries in the late 1990s showed that with the exception of two short economic setbacks, the wholesaling industries had grown continuously. The geographical distribution of wholesalers indicates that most of them are located in major metropolitan areas and their vicinities that have the highest purchasing power and the greatest demand for

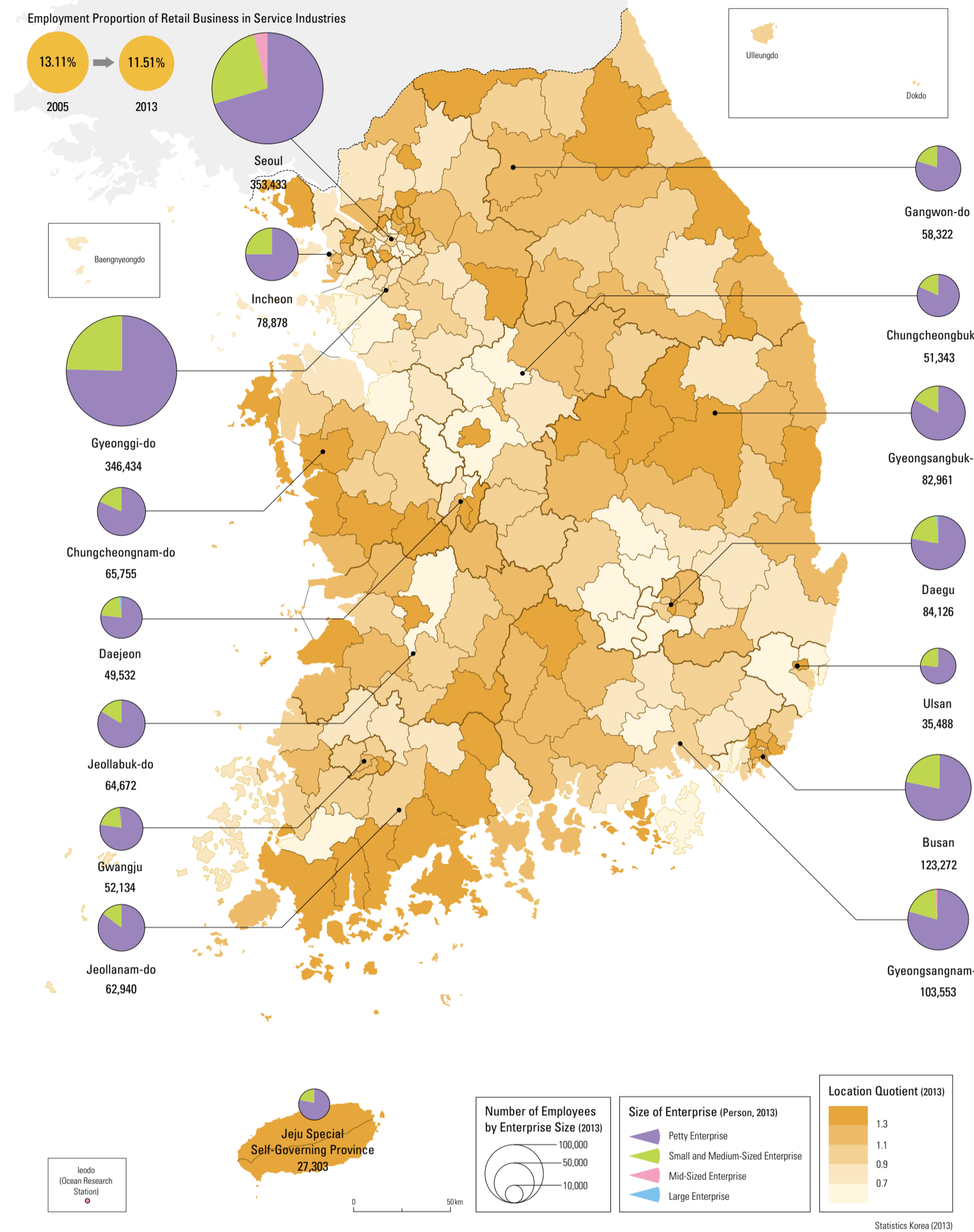
wholesale trade.

Wholesaling can be further divided into categories of food and beverage, cigarette wholesaling, household goods wholesaling, mechanical equipment and related goods wholesaling, construction material, steel goods, and heating equipment. Wholesaling traders tend to be located closer to the consumers than to the producers. The distribution of wholesalers of typical consumer goods — food and beverage and household goods — is very close to the population concentration. Usually, the large wholesale markets are divided by cities and provinces so that they tend to be located at the edges of or adjacent to their designated cities and provinces. On the other hand, wholesale traders that deal with mechanical equipment and related products tend to be located near industrial parks. Traditionally, wholesale markets that deal with construction materials, steel goods, and heating equipment tend to be located in large cities that have a higher demand for construction. With the fast suburbanization process, they tend to be located in the exurbs and suburbs of metropolitan areas where most of new construction takes place.



Retail Trade Services

Retail Business (2013)



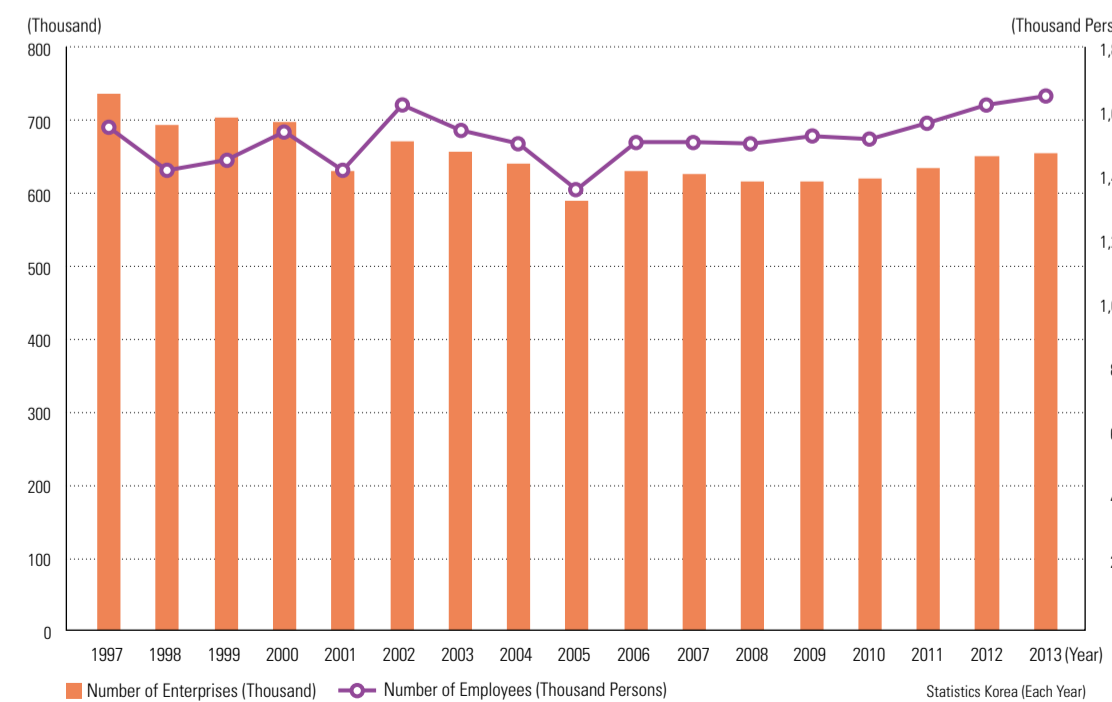
The rapid industrialization after the war brought improvement to the overall standard of living, followed by increased purchasing power and more demand for a variety of goods. As automobiles become readily available, the distance traveled to purchase goods as well as the amount spent on purchases per visit has increased. Safer online banking made electronic shopping more readily available with easy access to the internet. The retail shopping patterns of Korean society have to respond to this socio-economic environment and the changes in consumer lifestyles. In the past, the retail structure was relatively simple, with corner grocery stores, traditional open air markets, and department stores; however, after the 1970s, retail became more diversified, and supermarkets, convenience stores, discount stores, and all-inclusive, one-stop stores were introduced, in that order.

Large scale department stores grew continuously in the early twentieth century by satisfying the demand for rare, high-quality goods. Total sales increased steadily except during times of economic depression; however, the number of establishments remained small. Convenience stores, although they have relatively small space and limited goods, have the advantage of long business hours and great accessibility. In the early 1990s, with the end of the Korean curfew system and the liberal and social atmosphere after the Seoul Olympics of 1988, convenience stores grew steadily. After a brief slump during the financial crisis of 2009 the number of business establishments increased tremendously from 3,800 in 2000, to about 25,000 in 2013.

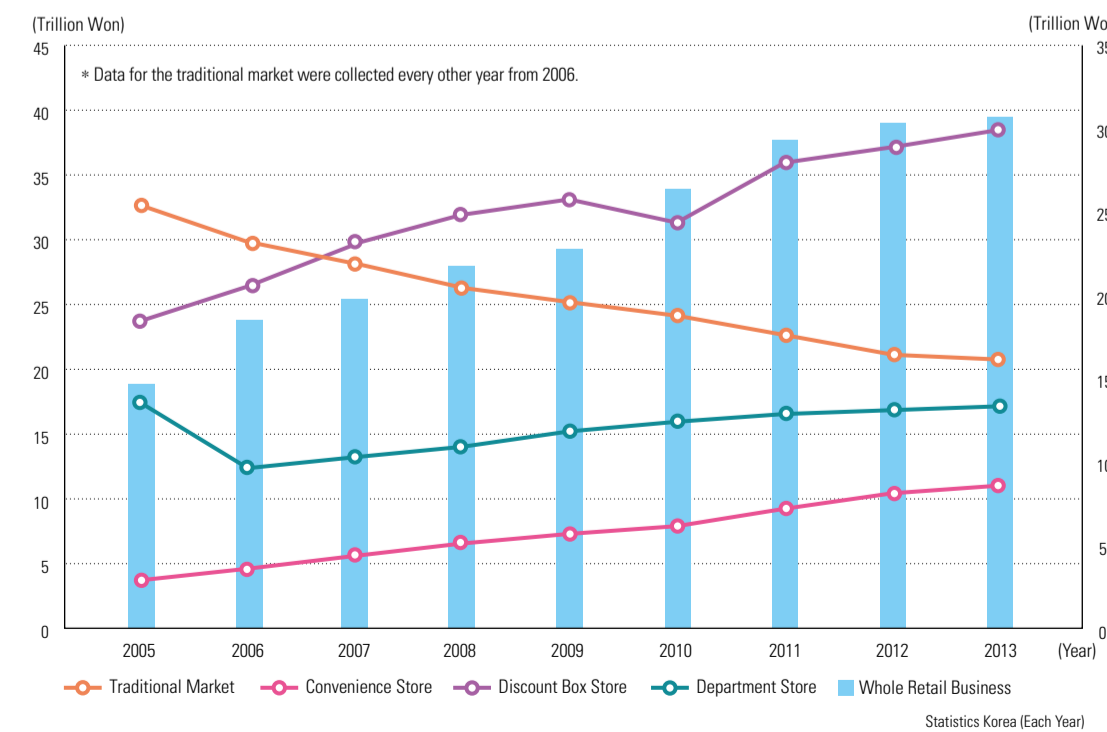
The large discount box stores, after their introduction in 1993, went through the mediation of IMF. With the availability of automobiles and large refrigerators, consumers' shopping patterns have shifted toward rational, yet discounted, purchases. Long distance shopping trips, weekend one-stop shopping, and buying in bulk became new shopping behaviors that helped the growth of the discount box stores. Since 2000, the market for box stores has been saturated, so that the growth of box stores has slowed down. To protect the small retailers of the opening air markets, the government has proposed some policies so that both small- and medium-scale retailers can coexist with the large, corporate-owned retailers.

While new retail venues such as convenience stores and large box stores grew, the traditional open air market lost its popularity in retail.

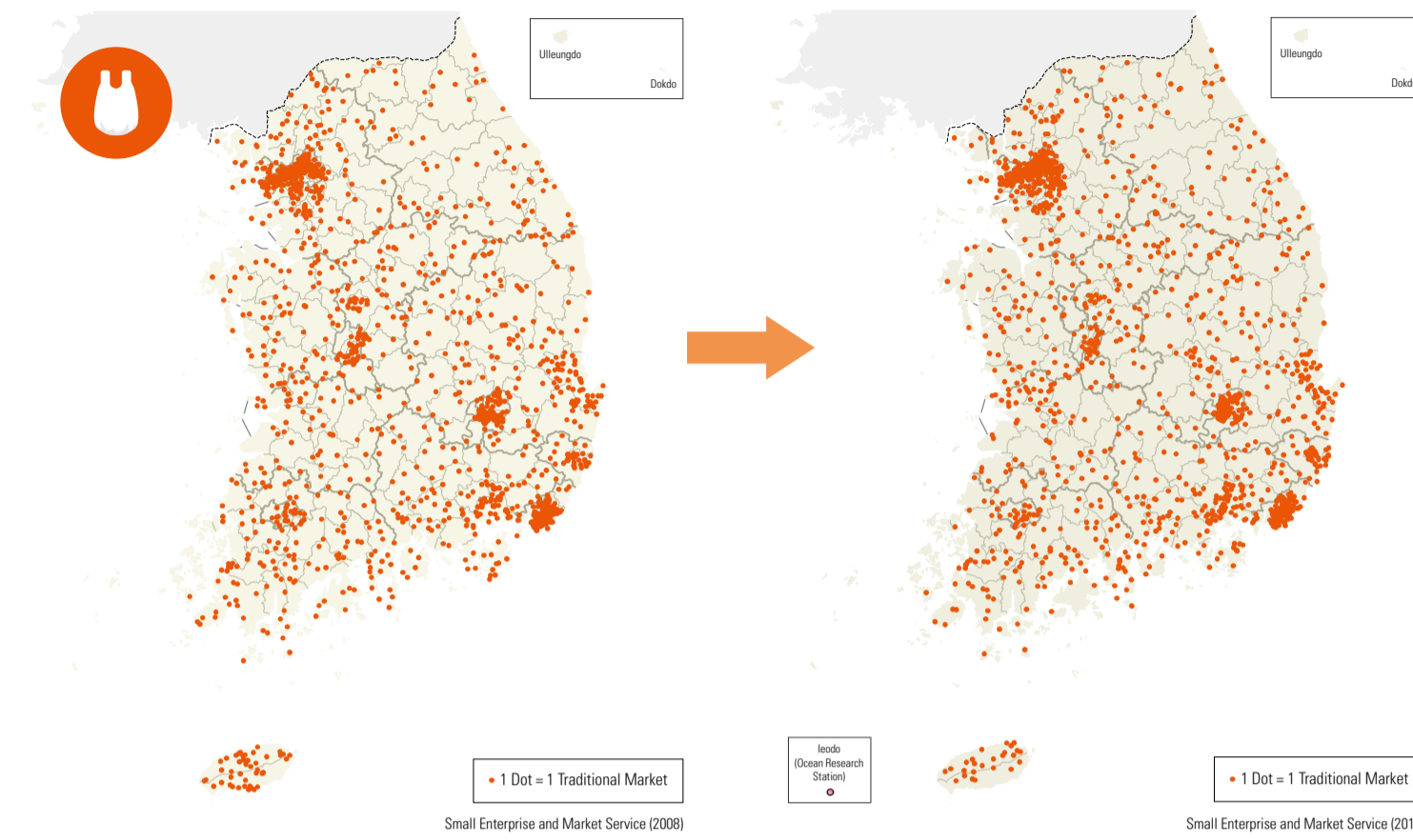
Enterprises and Employees in Retail Businesses (1997 – 2013)



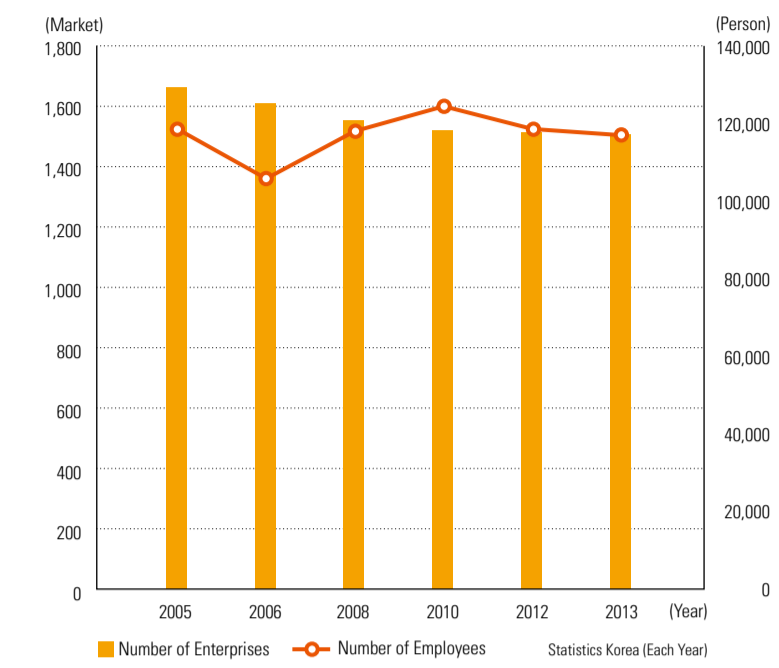
Total Sales by Type of Retail Business (2005 – 2013)



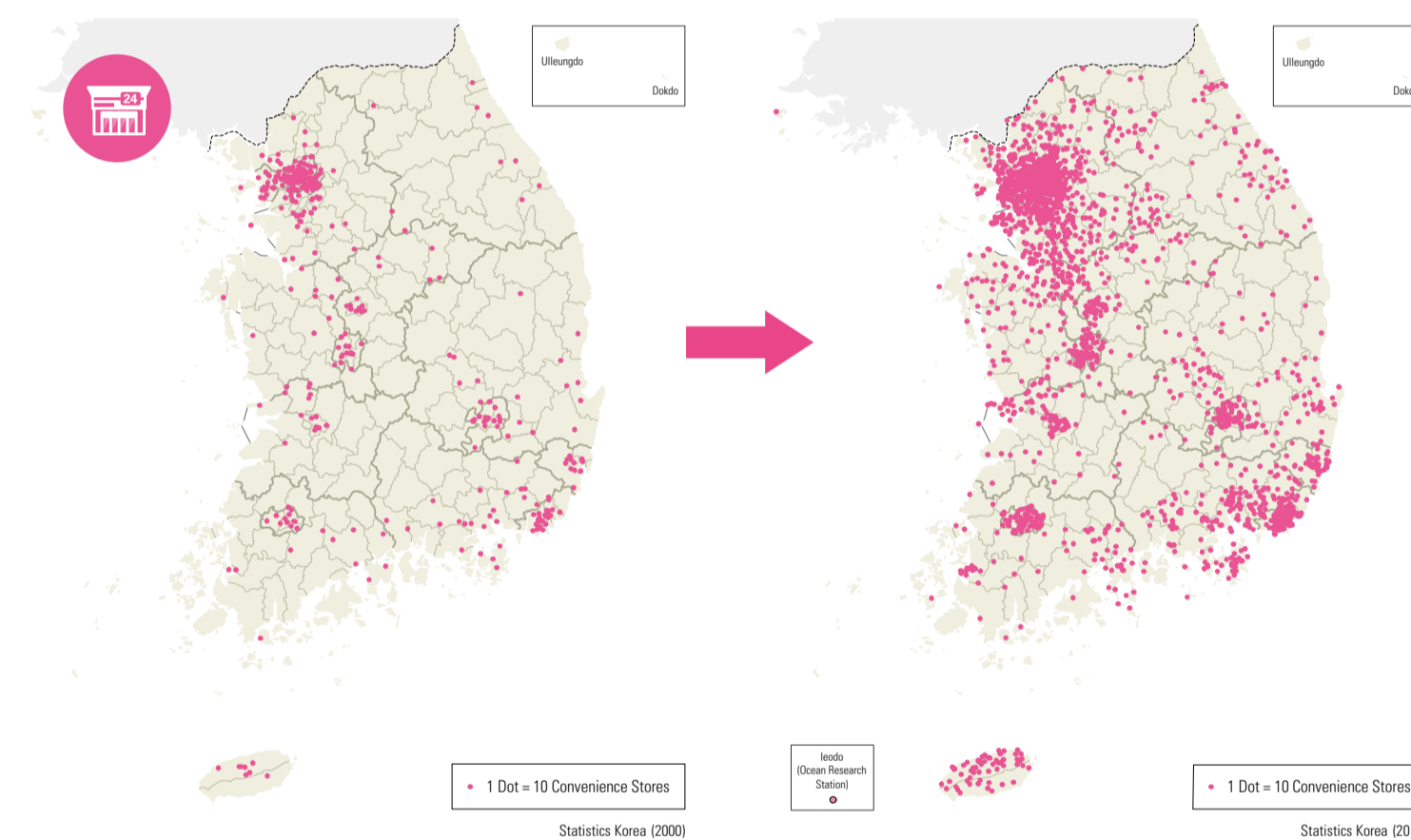
Traditional Market



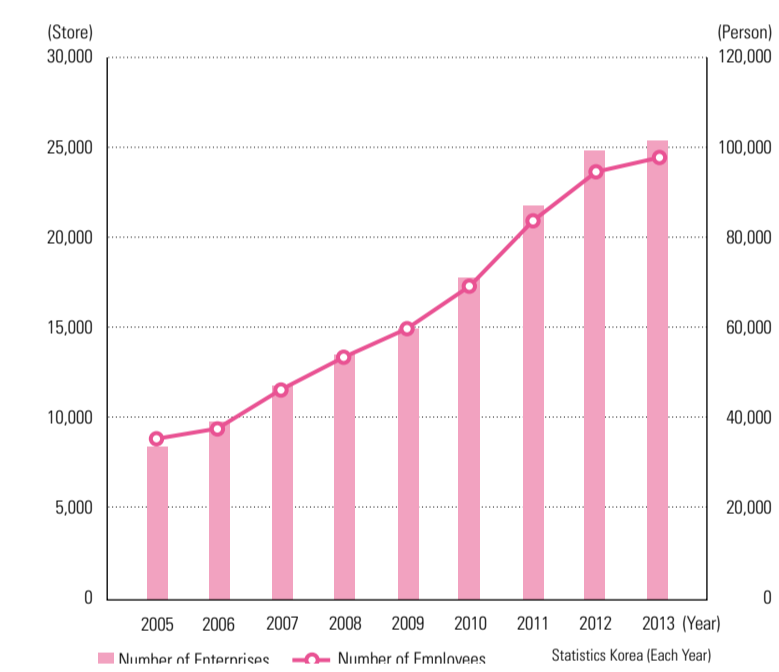
Traditional Market (2005 – 2013)



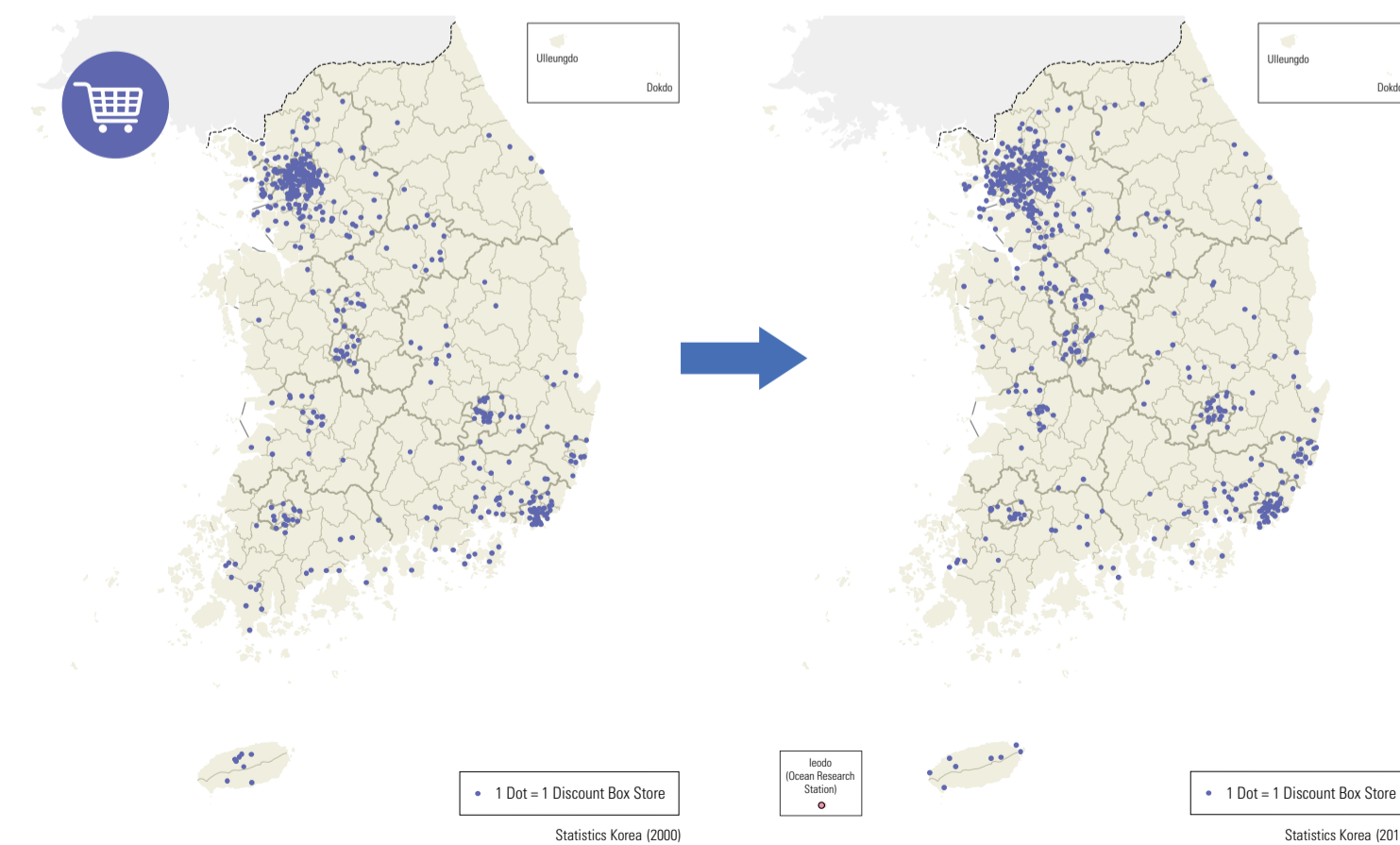
Convenience Store



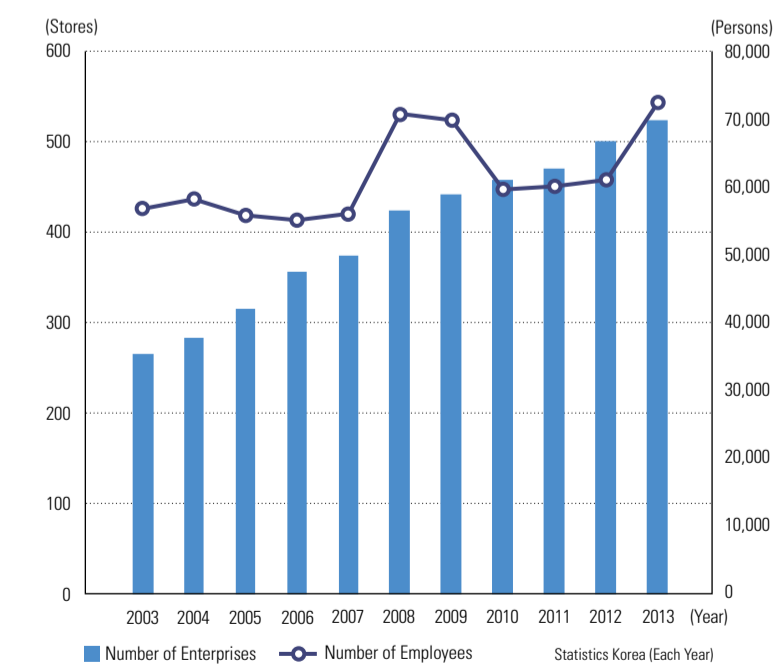
Convenience Store (2005 – 2013)



Discount Box Store



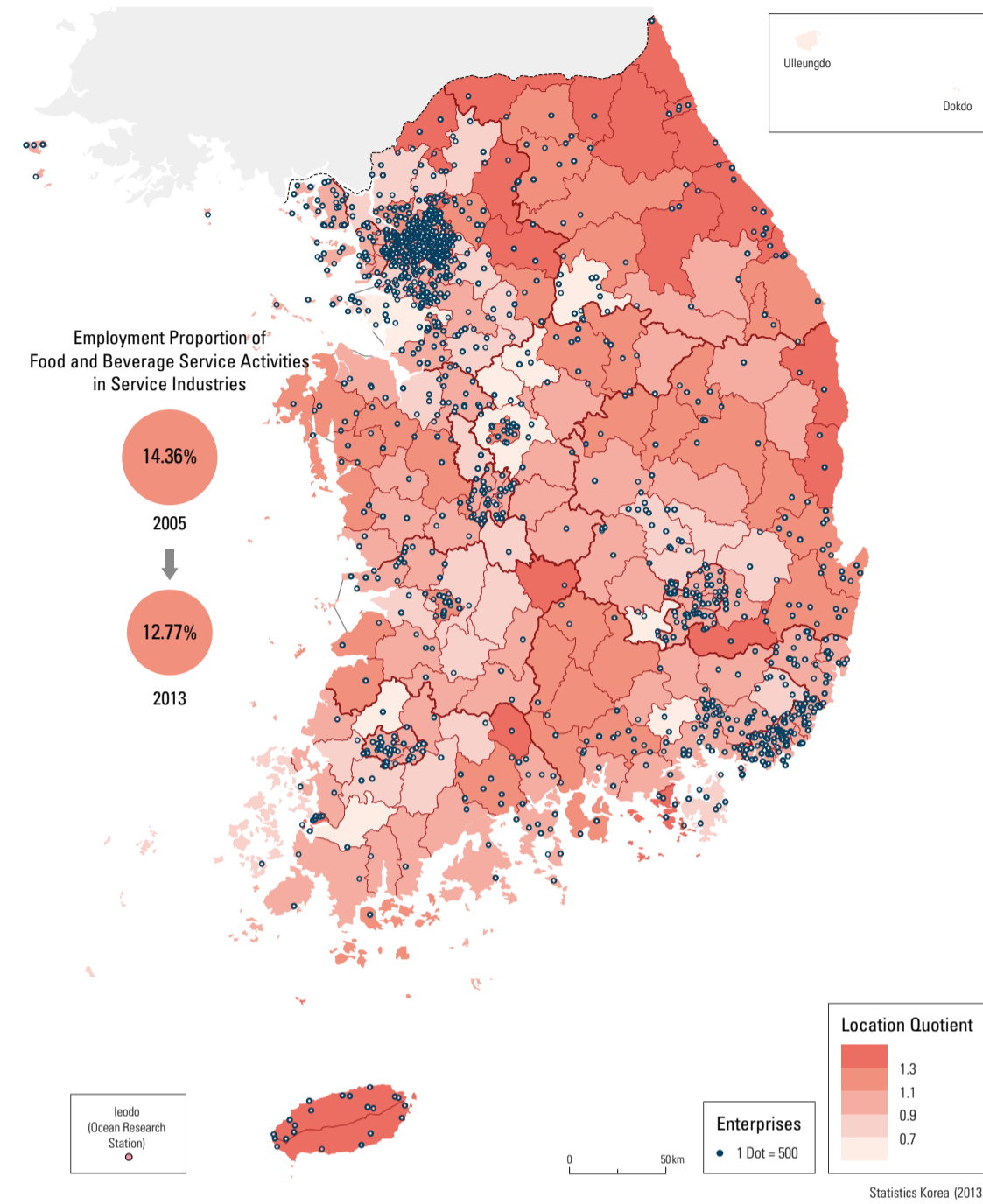
Discount Box Store (2005 – 2013)



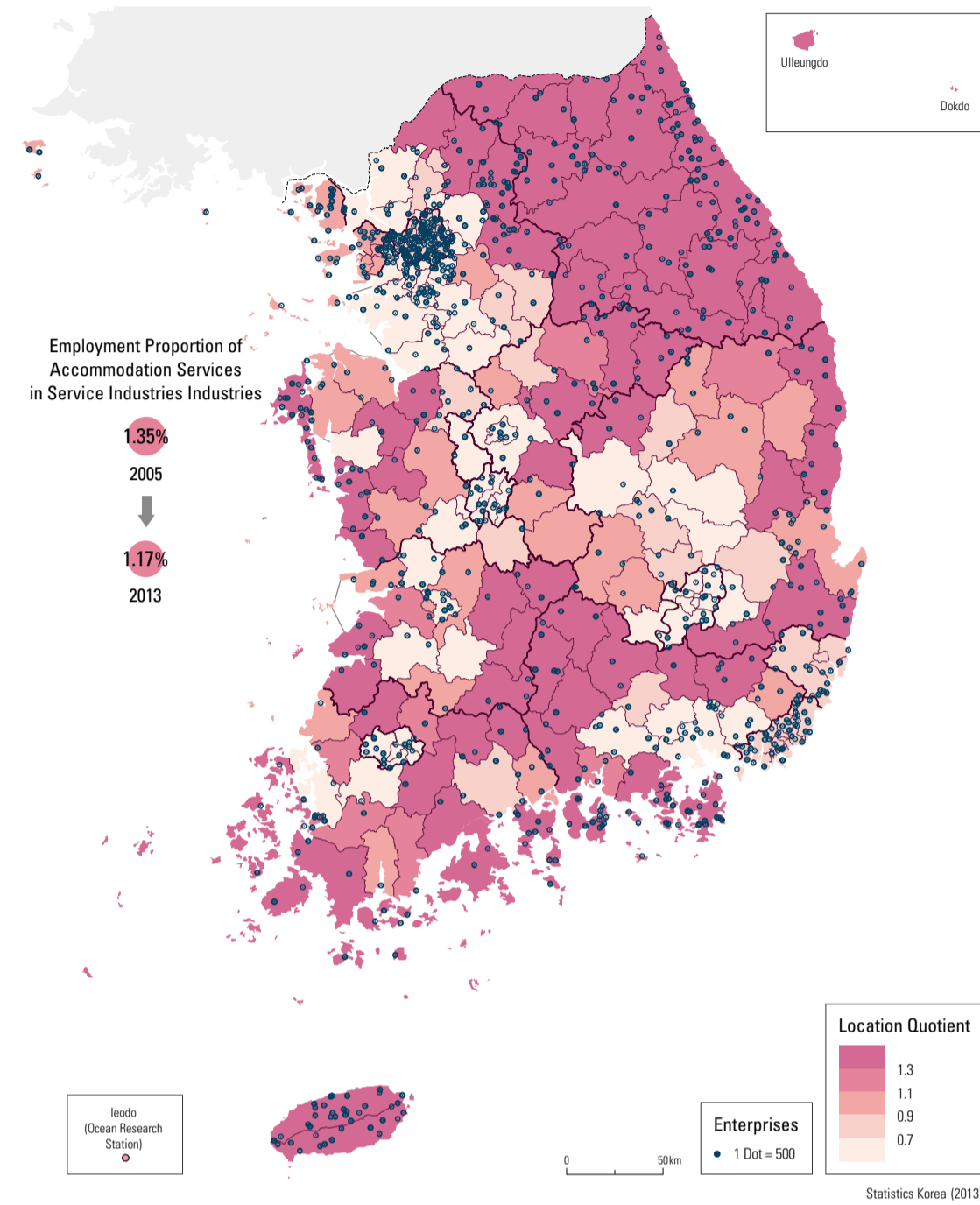


Food and Beverage Service Activities and Accommodation Services

Food and Beverage Service Activities (2013)



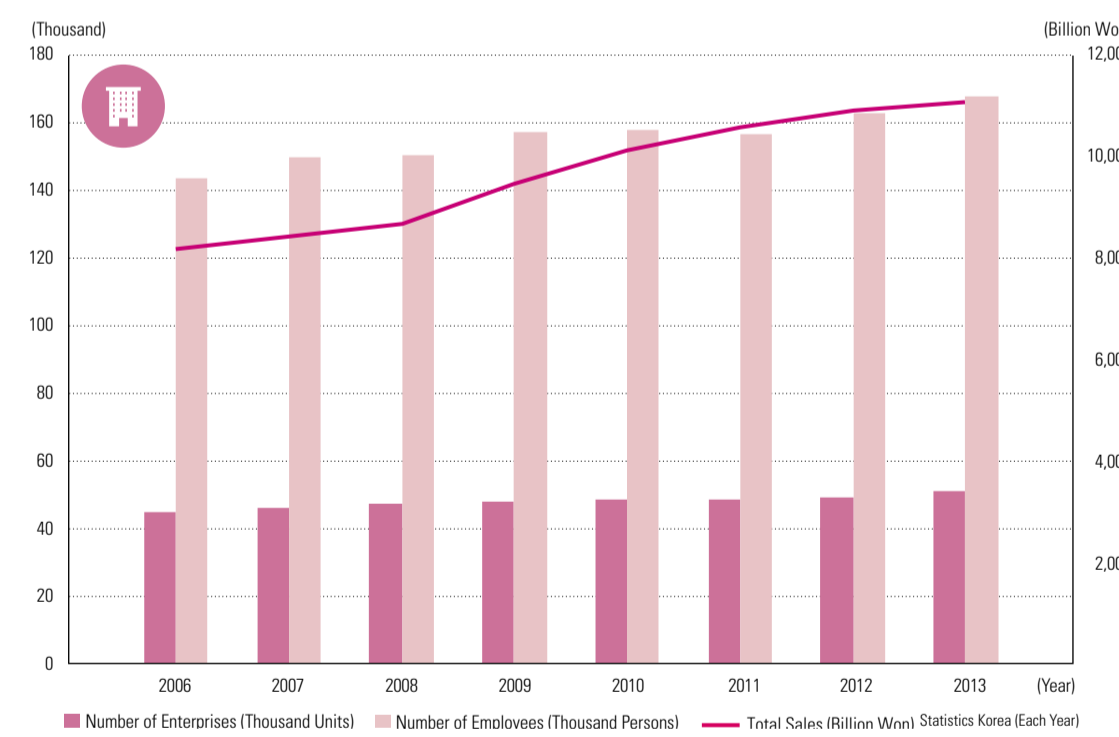
Accommodation Services (2013)



Food and Beverage Service Activities (2006 – 2013)



Accommodation Services (2006 – 2013)



When the places where people work and live become geographically farther apart and leisure activities become readily available, eating out away from home increases. The food industry represents the economic activities that include any facilities for cooking and consuming food prepared for customers directly within the compound. More specifically, it includes restaurants, diners, snack bars, cafes, bakeries, and drinking places. It also includes takeout and delivery services, catering,

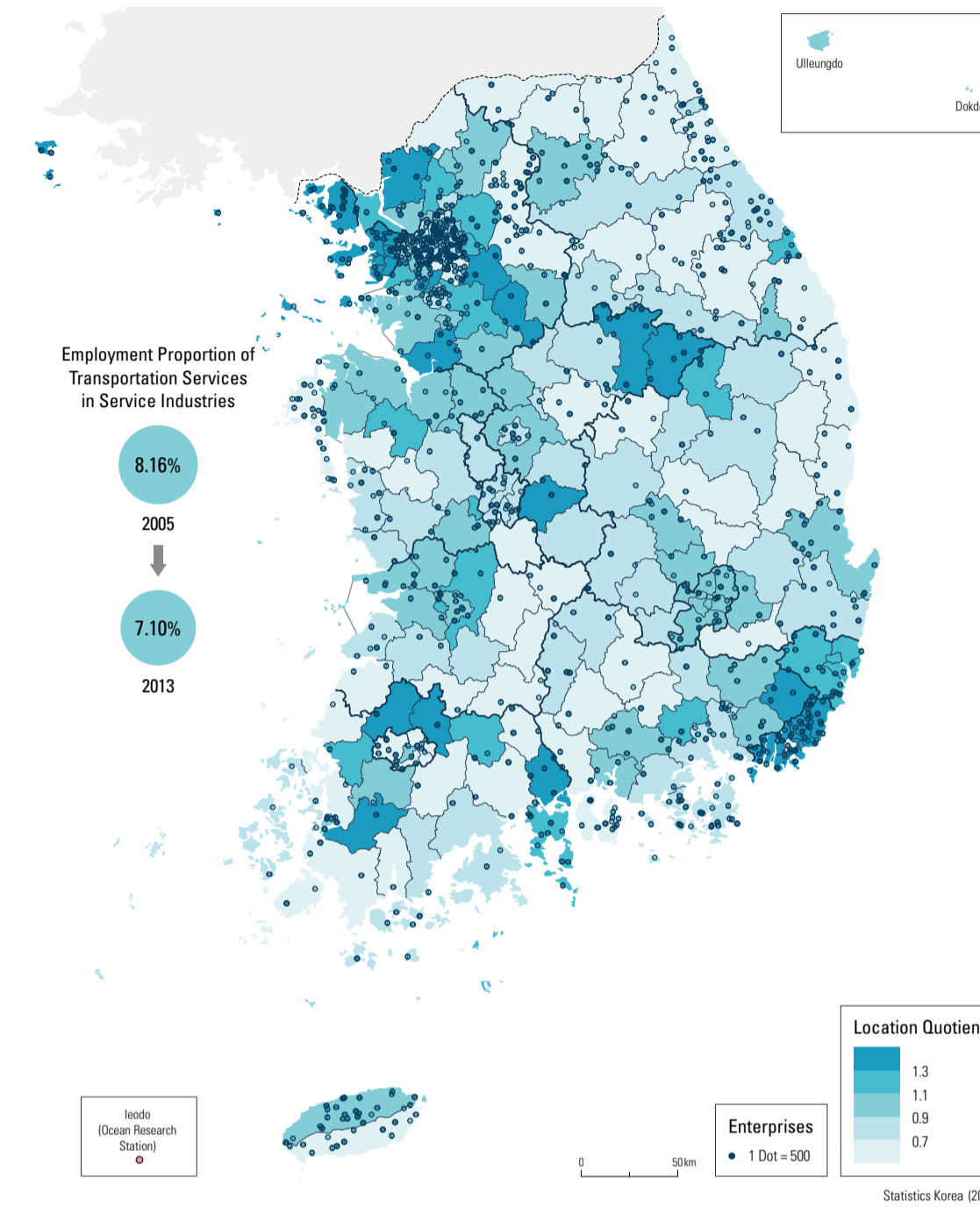
and actually cooking for customers on location upon request. Lifestyle changes have brought more opportunities for short-term travel, such as frequent business trips due to active regional economic interactions or leisure trips due to the five-day work week. The lodging industry represents all kinds of short-term sleeping accommodations for the general public or for their members, including camping facilities and campsites.

Although there have been some momentary declines, the overall pattern for the establishments, employees, and sales in the food and lodging industries have grown steadily. In 2013, there were 636,000 total food industry establishments, with 1.8 million total employees, and 73 billion US dollars in total sales. These numbers represent an increase since 2006 of 10.2% for the number of establishments, 9.3% for the number of employees, and 48.1% for total sales. For the lodging industry,

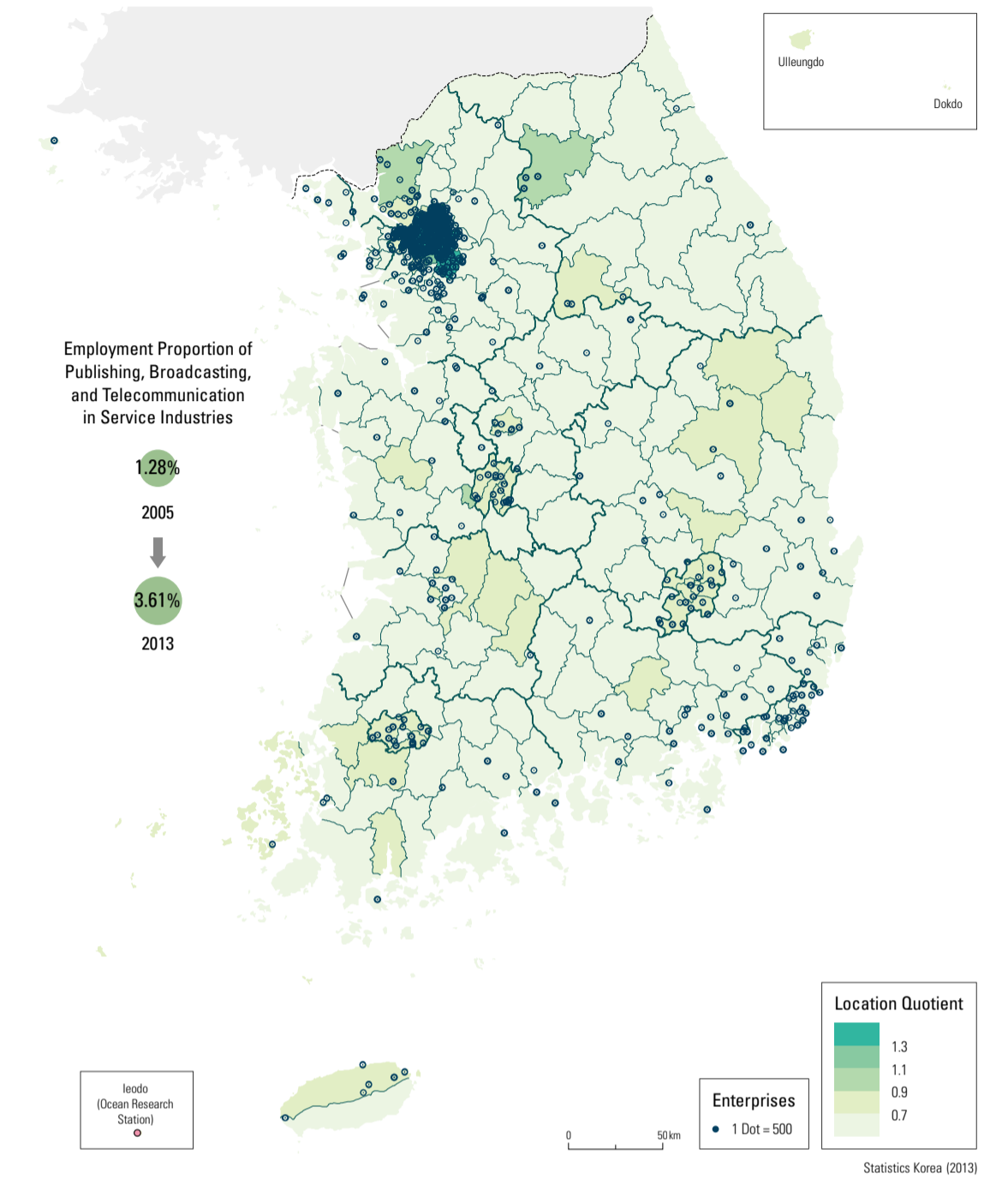
on the other hand, there were over 50,000 establishments with 167,000 employees and 10 billion US dollars in total sales in 2013, representing an increase since 2006 of 12.8% for establishments, 16.9% for employees, and 35.4% for total sales. Food industry establishments tend to be concentrated in metropolitan areas where the population density is higher, while lodging businesses show an overall balanced distribution pattern, including rural areas with tourist attractions.

Transportation, Broadcasting, and Communication Services

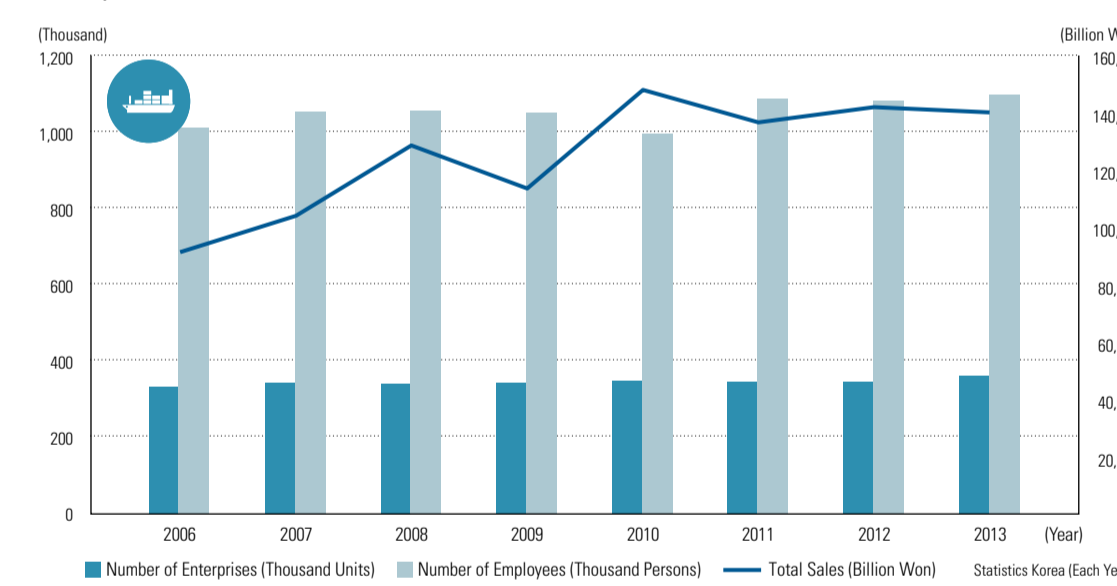
Transportation Services (2013)



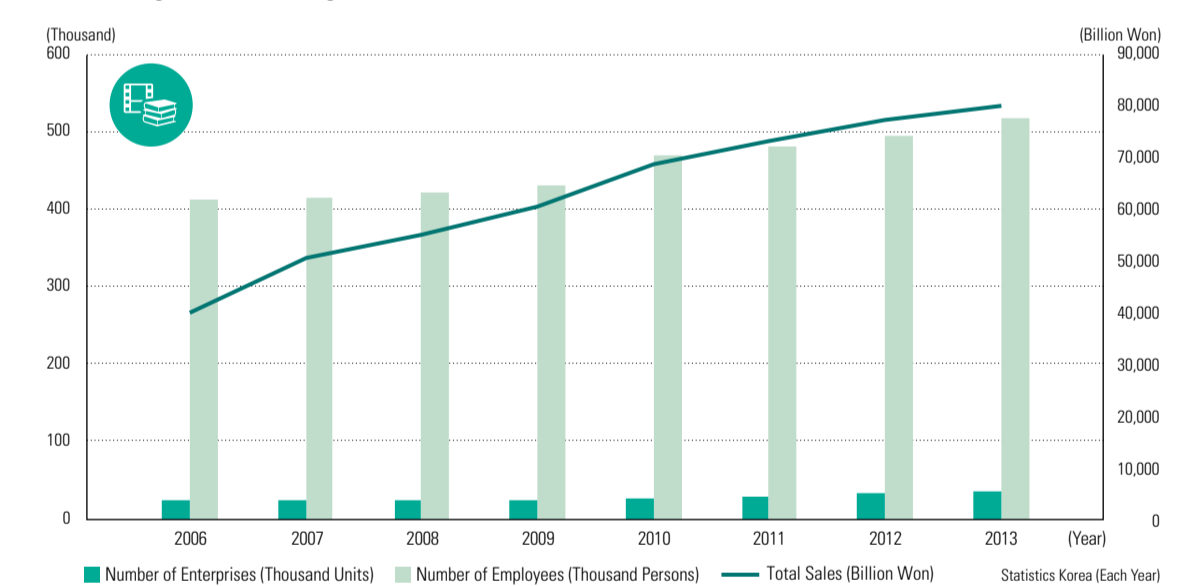
Publishing, Broadcasting, and Telecommunications (2013)



Transportation Services (2006 – 2013)



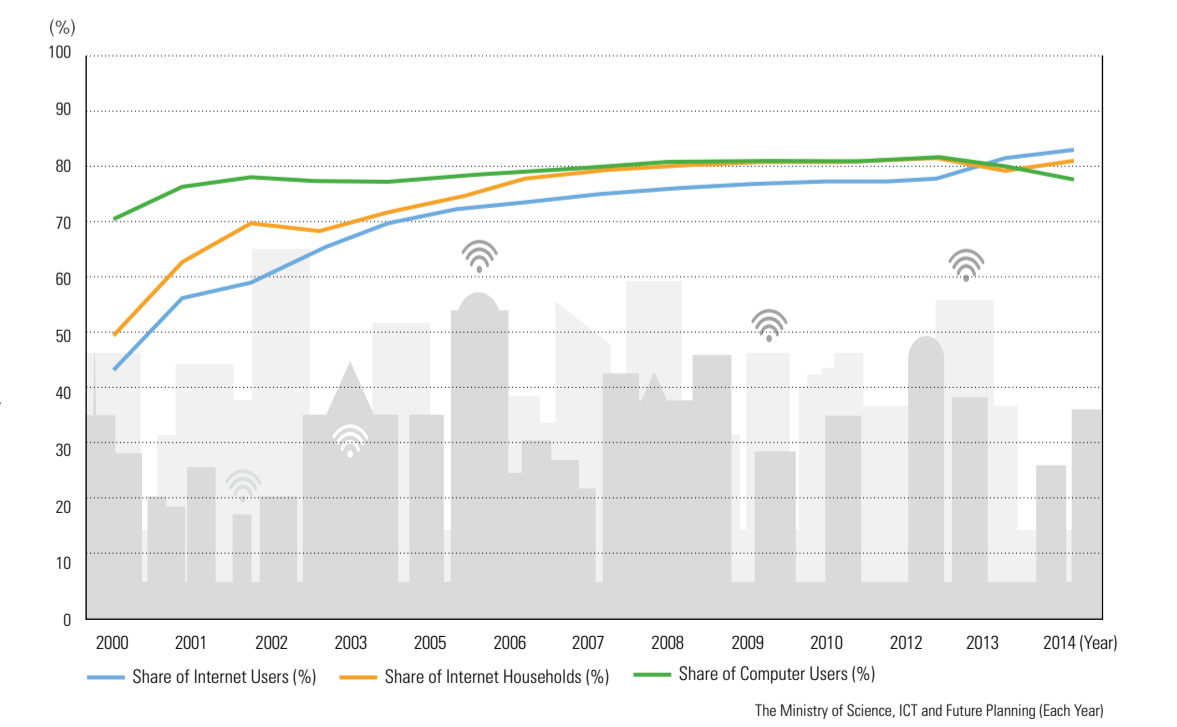
Publishing, Broadcasting, and Telecommunications (2006 – 2013)



With economic growth, the flow of goods and people between regions has also increased. The transportation industry includes mainly businesses that transport passengers and cargo by all means of transportation; however, the industry also benefits all of its supporting businesses, e.g., warehousing, terminal facilities, and its management, logistics, and distribution services. Similar to the tourism industry, the transportation industry is rather sensitive to economic fluctuations, so that in 2009, the momentary slowdown of the world economy depressed the transportation industry. In 2013, there were 360,000 transportation business establishments, employing 1,094 million workers with total sales of 128 billion US dollars. The demand for transportation is higher in major cities where there is more demand for logistics dis-

tribution; however, due to the higher land values in the hearts of cities and the traffic congestion, warehouses are usually in the suburbs or exurbs. Recent progress in communication technology and knowledge-based informationization drives diverse demands for easy and instantaneous access to information and knowledge. Satisfying such demands are publication, video, broadcasting communication, and information services. In 2013, there were 36,000 business establishments with 516,000 employees and total sales of 73 billion US dollars. The total number of establishments, employees, and sales has steadily increased, sometimes at a fast pace, regardless of the recent economic crisis. Although access to knowledge and information is easily available anywhere and anytime, these business services tend to be concentrated heavily in major cities.

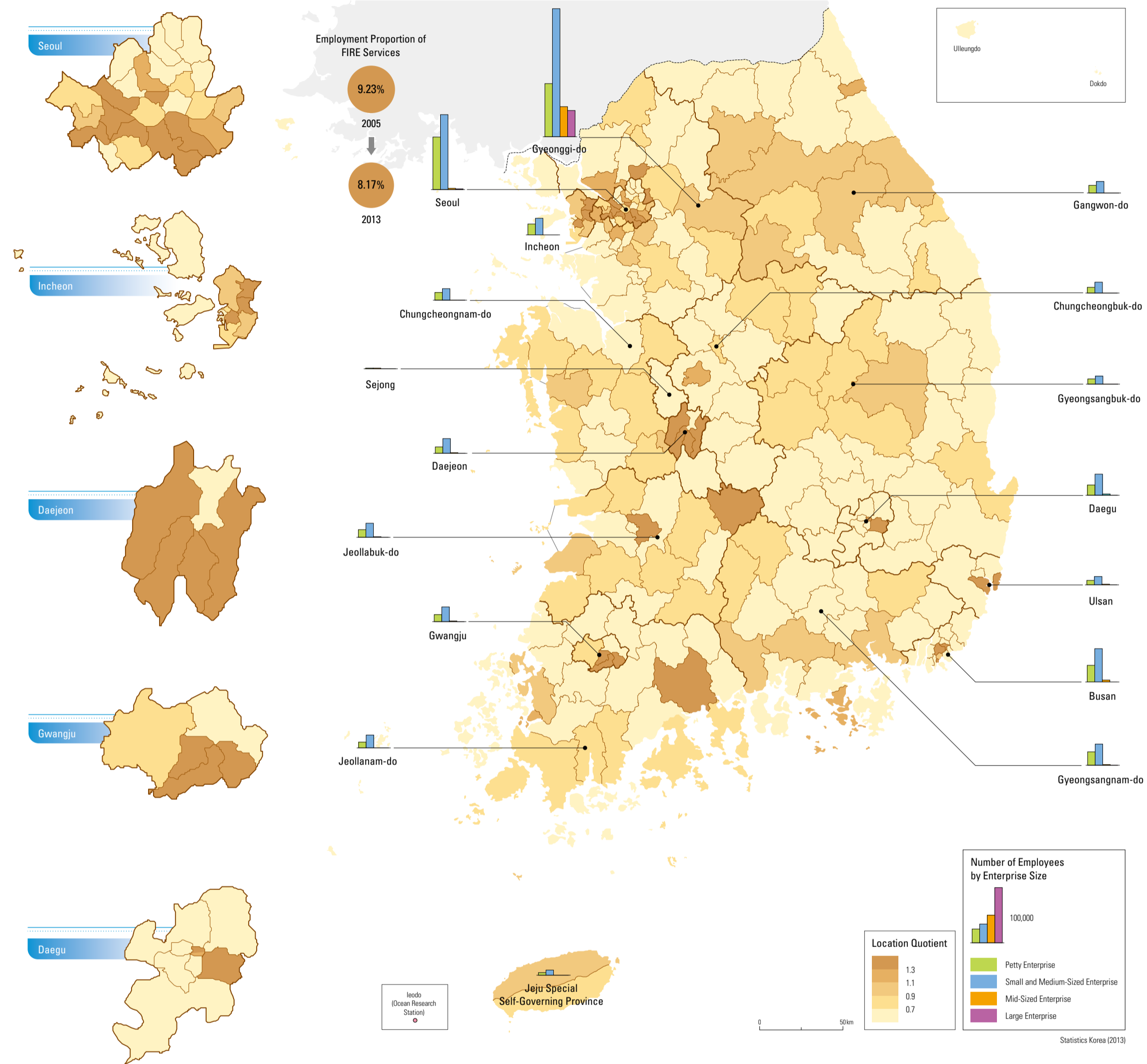
Internet and Computer Usage



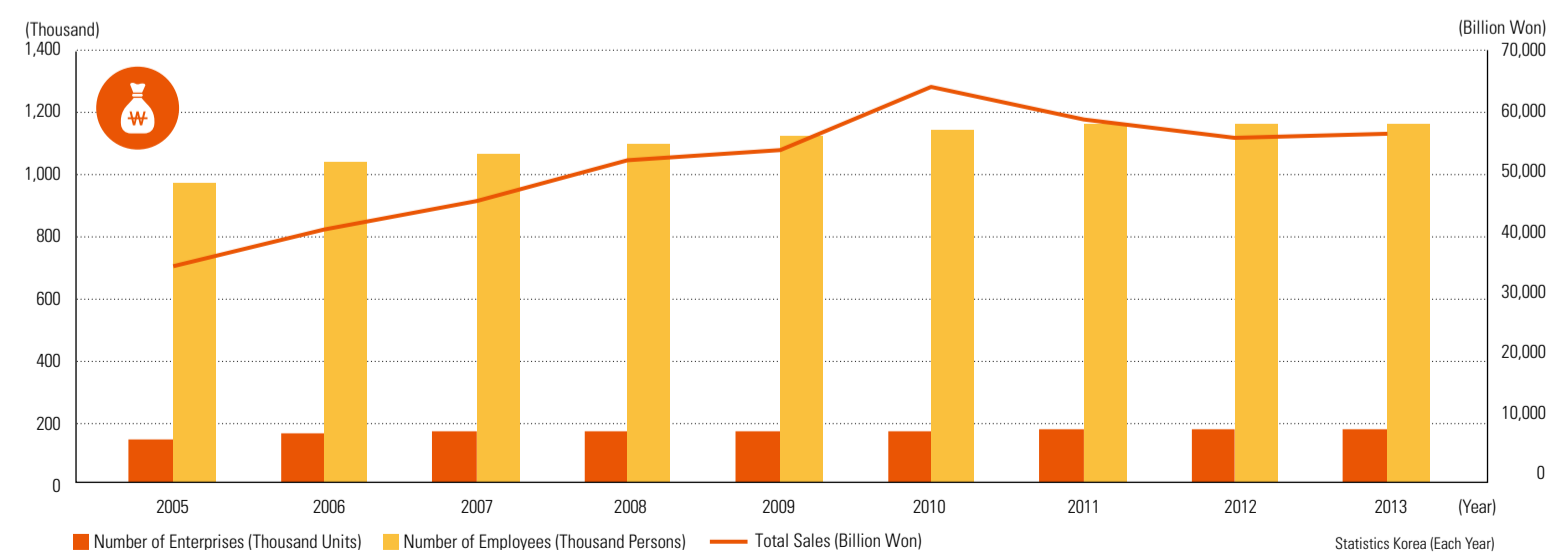


Producer Services

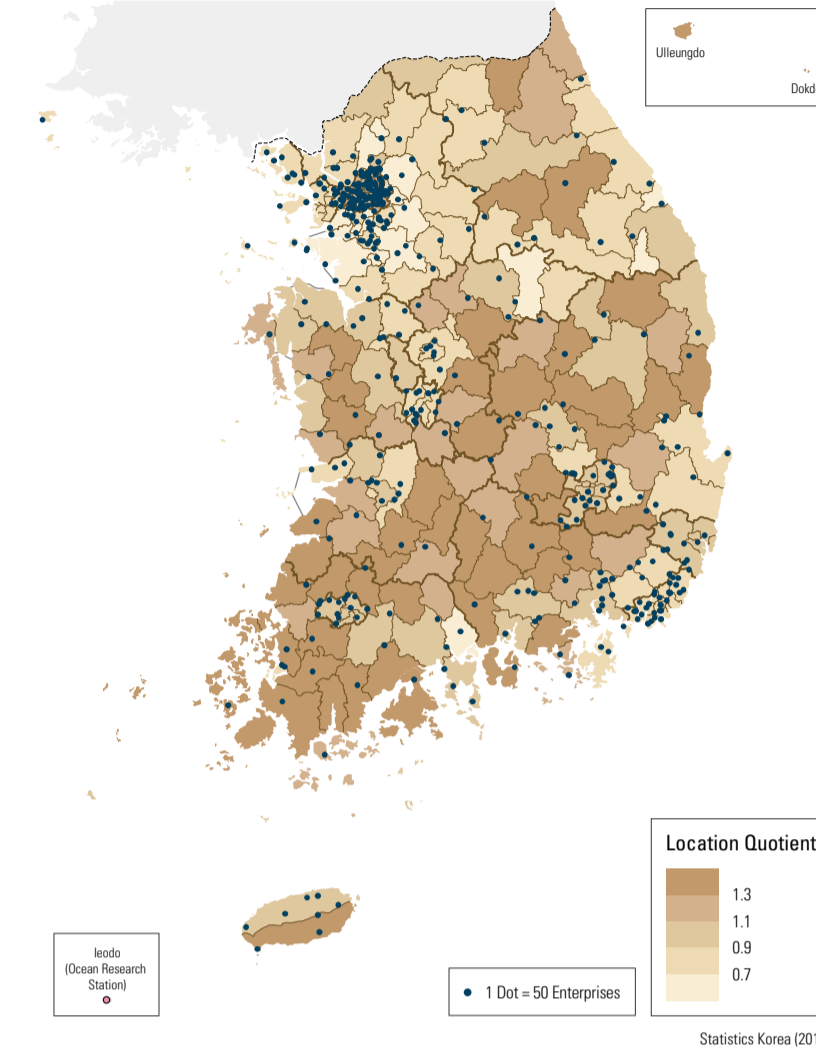
Finance, Insurance, and Real Estate (FIRE) Services (2013)



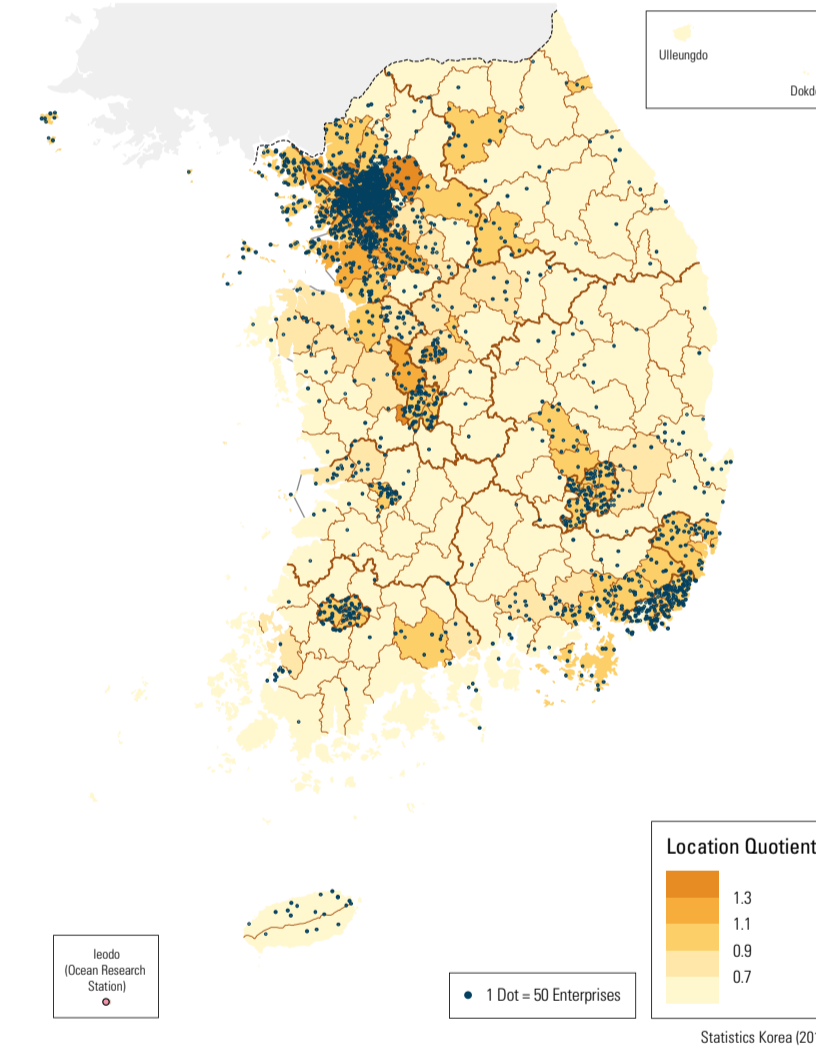
The Growth of FIRE Service Industries



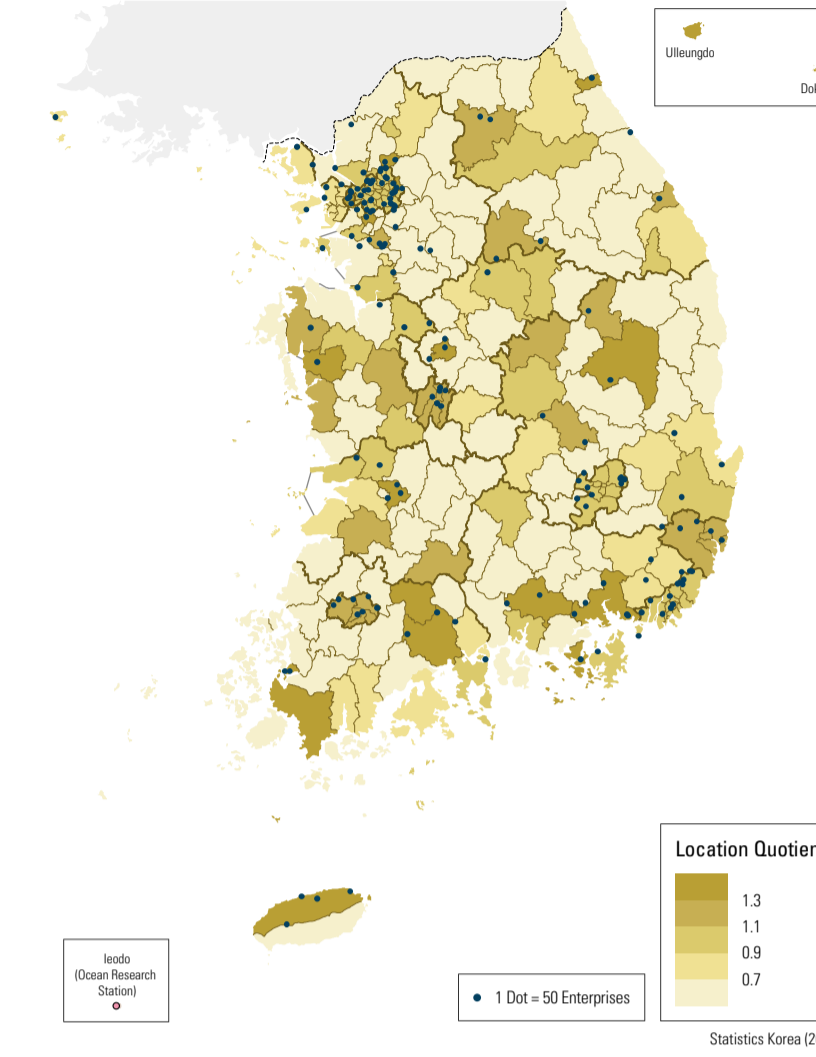
Financial Business (2013)



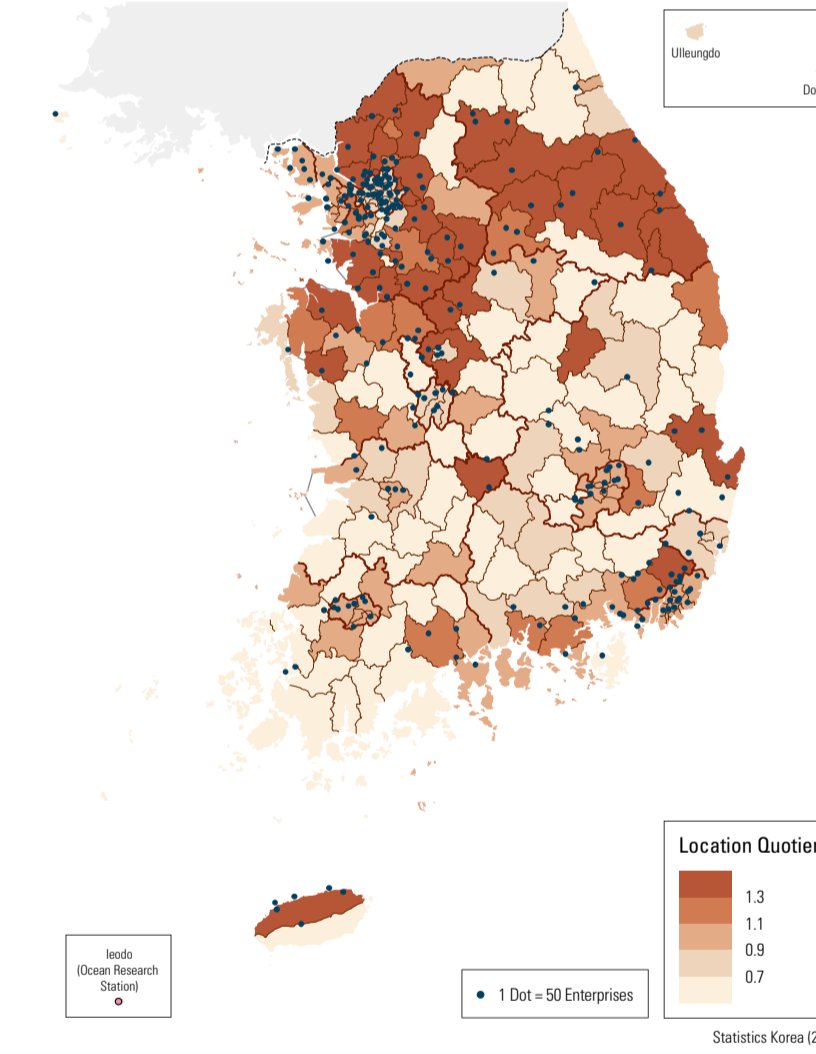
Real Estate Activities (2013)



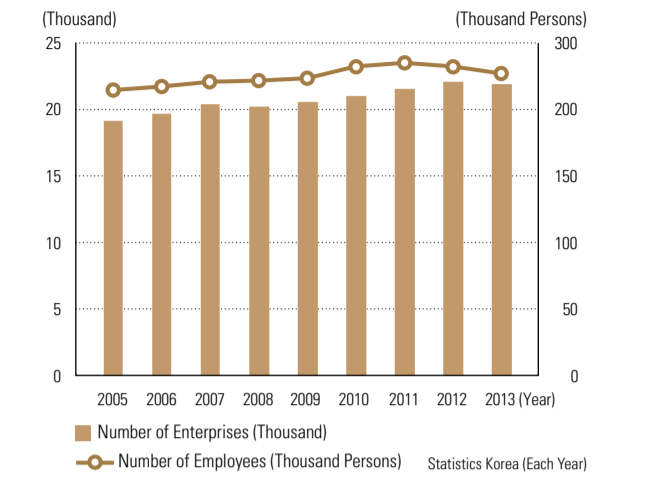
Insurance and Pension Funding (2013)



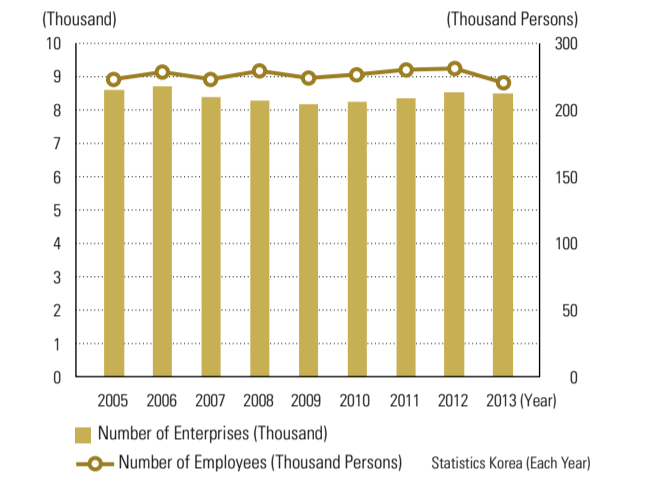
Rental and Leasing (2013)



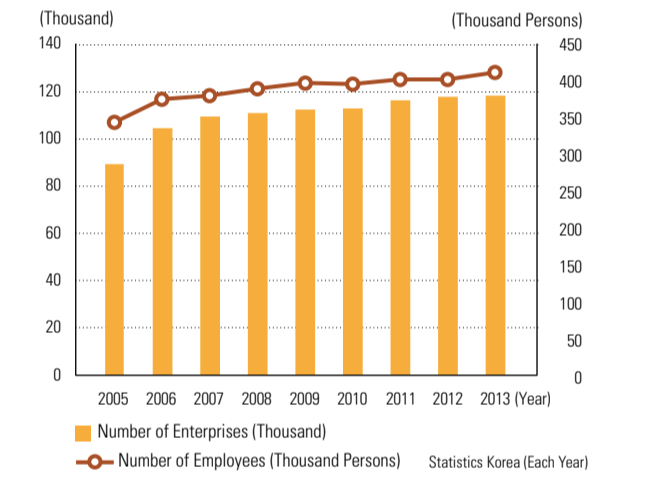
Financial Business (2005 - 2013)



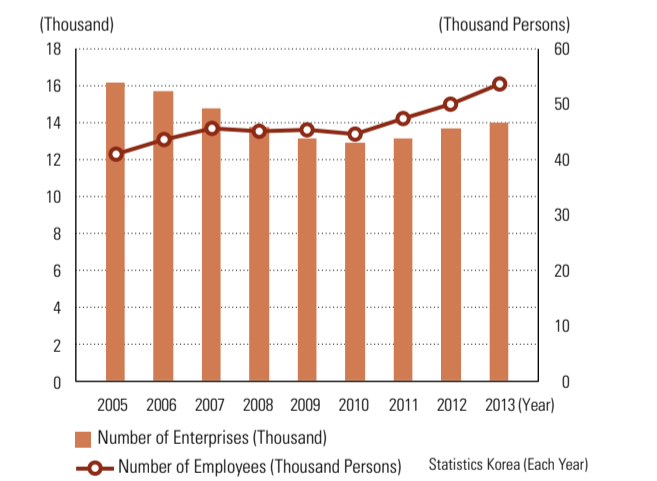
Insurance and Pension Funding (2005 - 2013)



Real Estate Activities (2005 - 2013)



Rental and Leasing (2005 - 2013)



Depending on the particular service provided, the service industry can be divided into consumer services that provide services directly to consumers and producer services that provide services to businesses' production activities. Consumer services include retail, food and lodging industries, tourism, and mostly individual services, while producer services include marketing, survey, research and development, advertising, accounting, consulting, finance, insurance and real estate, leasing, and so forth. Within producer services, finance, insurance, real estate, and leasing are called FIRE industries, based on the initials of those businesses. In 2013, there were 174,000 FIRE industry establishments with 1.2 million employees

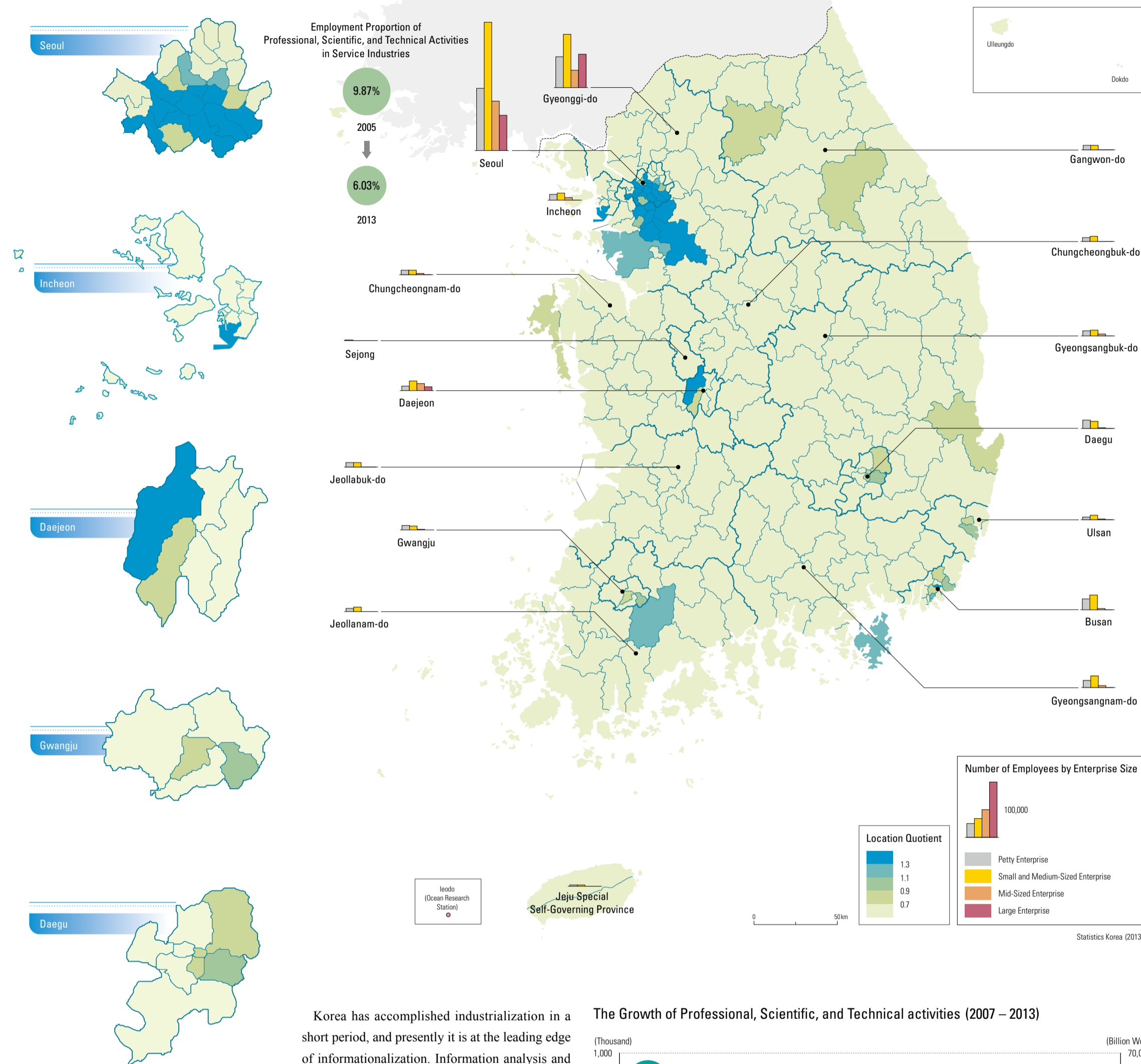
and 57 trillion won in total sales. Although FIRE industries do not actively perform production or construction, they support such industries. Unlike consumer services that tend to be located near consumers, business services are located near the businesses they serve, especially where the information is readily available. The finance service industry, excluding the insurance and annuity service industries, encompasses a broad range of businesses that manage funds. Nationally, there are about 22,000 establishments and 273,000 employees. They tend to be concentrated in the six greater metropolitan areas, including Seoul, that have a rather active flow of capital. Insurance services raise funds

to provide risk management services to hedge against the uncertainty risk of either short- or long-term losses of life or property. Annuity services create and manage guaranteed retirement funds or post-retirement income funds. Mutual benefit associations for individuals or groups and pension deduction companies are in this category. There were about 8,500 companies and 265,000 employees in insurance and annuity service industries in 2013. Insurance and annuity service industries have a relatively higher urban concentration than finance services. The real estate industry involves managing, renting, purchasing, and sales of owned or leased buildings, land, and other real estate (excluding

cemetery lots). There were 119,000 real estate businesses with 413,000 employees in 2013. The real estate industry constitutes the highest proportion of the FIRE industries and tends to be concentrated in large metropolitan areas where the population movement is most active. Leasing businesses range from renting small household equipment to private individuals or households to leasing major industrial mechanical equipment without operators to business establishments. This leasing business also includes leasing of intangible properties. Nationally there were 14,000 real estate establishments and 54,000 employees in 2013.



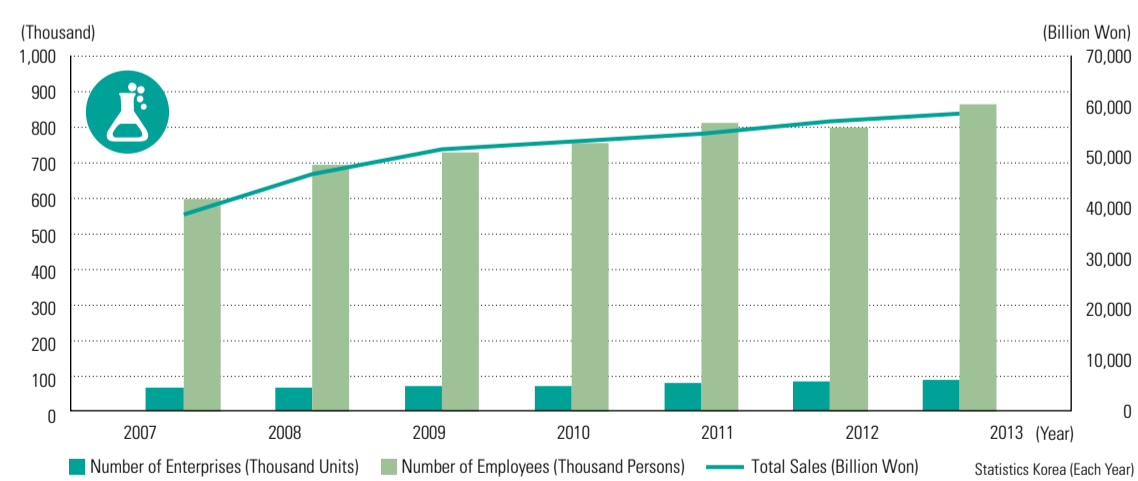
Professional, Scientific, and Technical Activities (2013)



Korea has accomplished industrialization in a short period, and presently it is at the leading edge of informationalization. Information analysis and exchange has become easier and more active with the development and supply of computers, internet, and the equipment for data processing and communication. Furthermore, with the creative fusion of knowledge covering all kinds of information, Korea has become a more knowledge-based and information-active society that keeps stride with the development of technology and industry.

Typical producer service industries such as professional, scientific, and technological skill service industries support other businesses in acquiring expertise and efficiency in management by performing professional, scientific, and technological tasks by contract on behalf of other businesses. Conventionally, the products in these service industries are consumed at the time services are rendered. For the same reason, the above business services used to be classified as non-tradable; however, changes in perception for patents

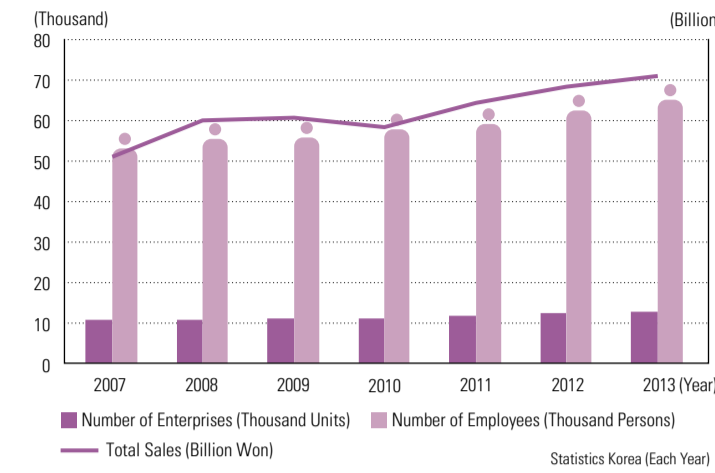
The Growth of Professional, Scientific, and Technical activities (2007 – 2013)



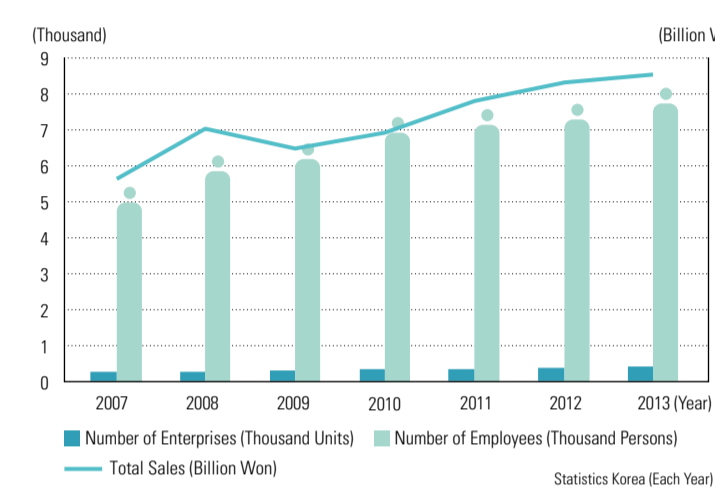
and copyrights led such services to be considered commodities that can be traded. Also, as service industry products can be the main drivers for improved production and competitiveness in manufacturing, service industries have become more intimately related to manufacturing industries.

Since highly specialized knowledge and well-educated workers are the major requirements for service industries, business services tend to be concentrated in large metropolitan areas where many educational institutions are located. Within large cities, they tend to be concentrated in the central business districts of the city where the majority of their customers are located. In Seoul, they are concentrated in Gangnam-gu, Seocho-gu, and Jung-gu.

Legal Services

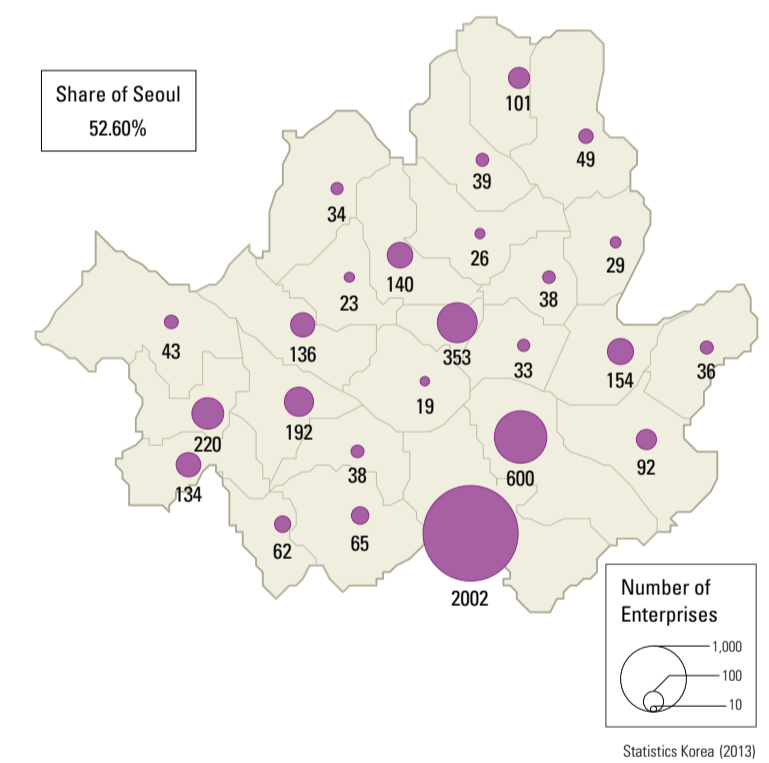


Market Research and Public Opinion Polling

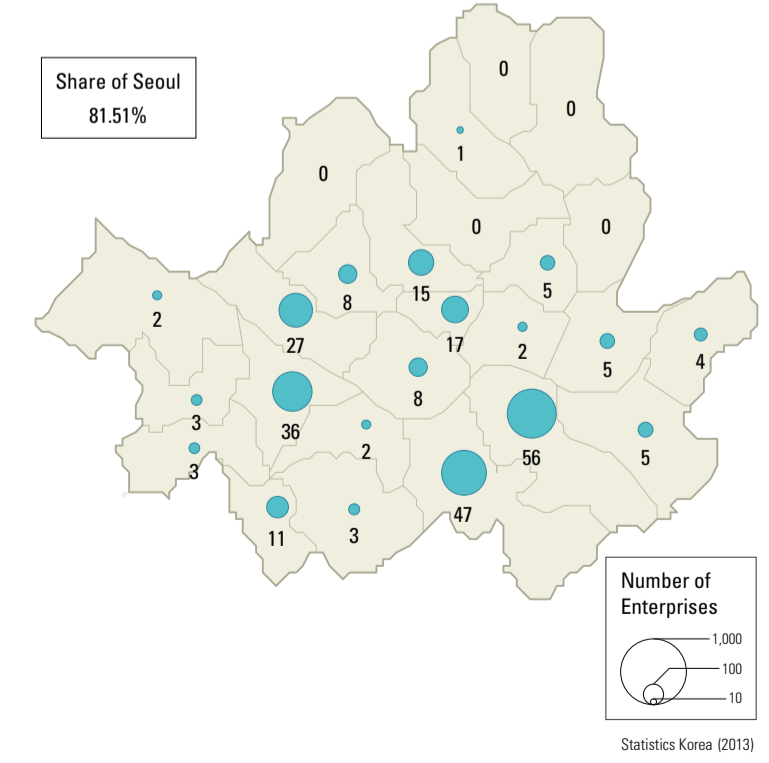


Business Services in Seoul

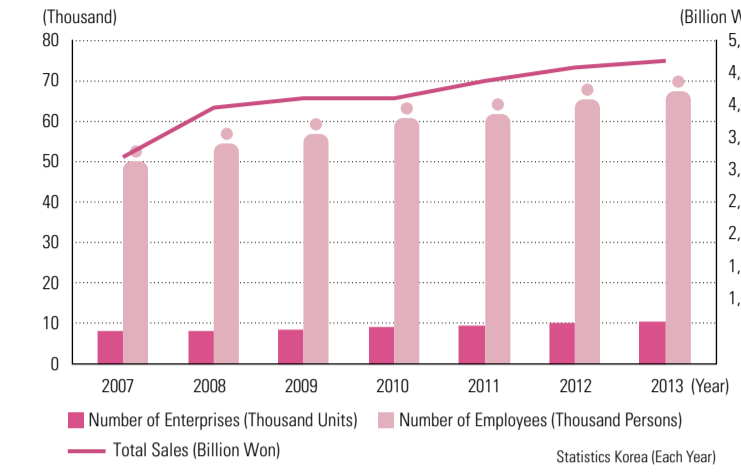
Legal Services



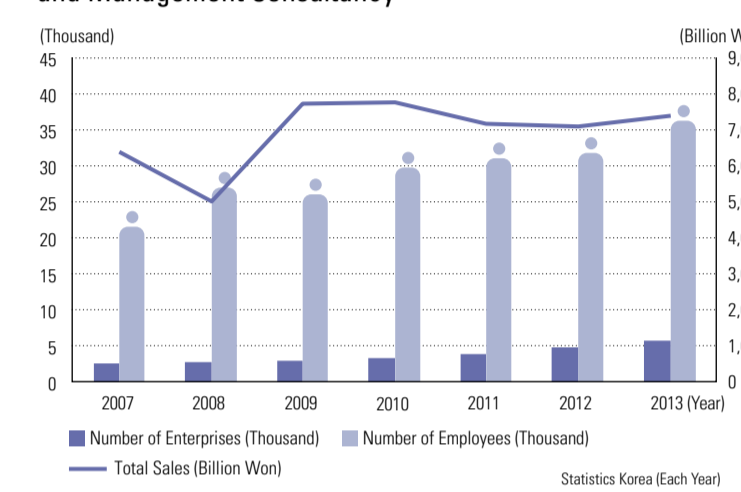
Market Research and Public Opinion Polling



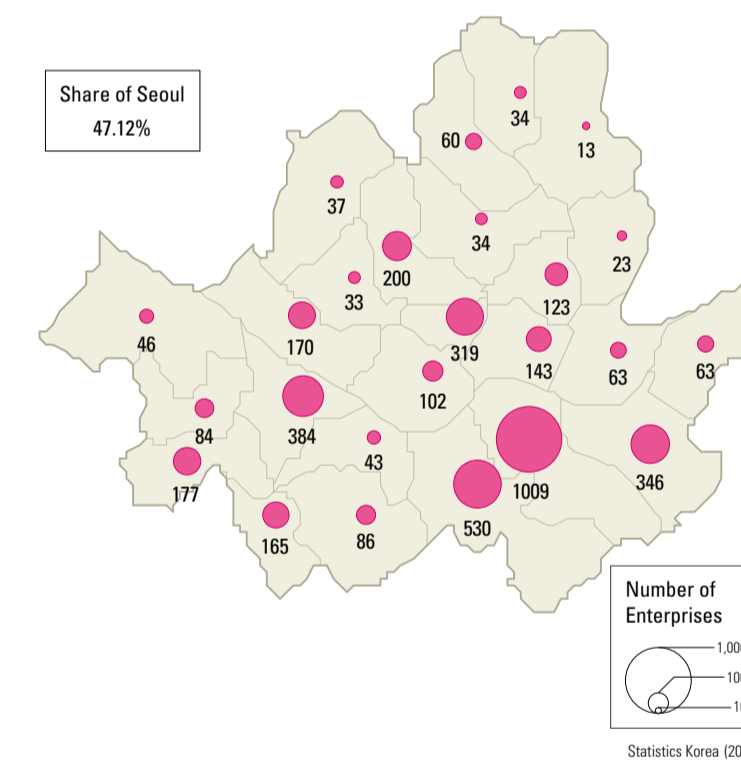
Accounting, Tax Preparation, Bookkeeping, and Payroll Services



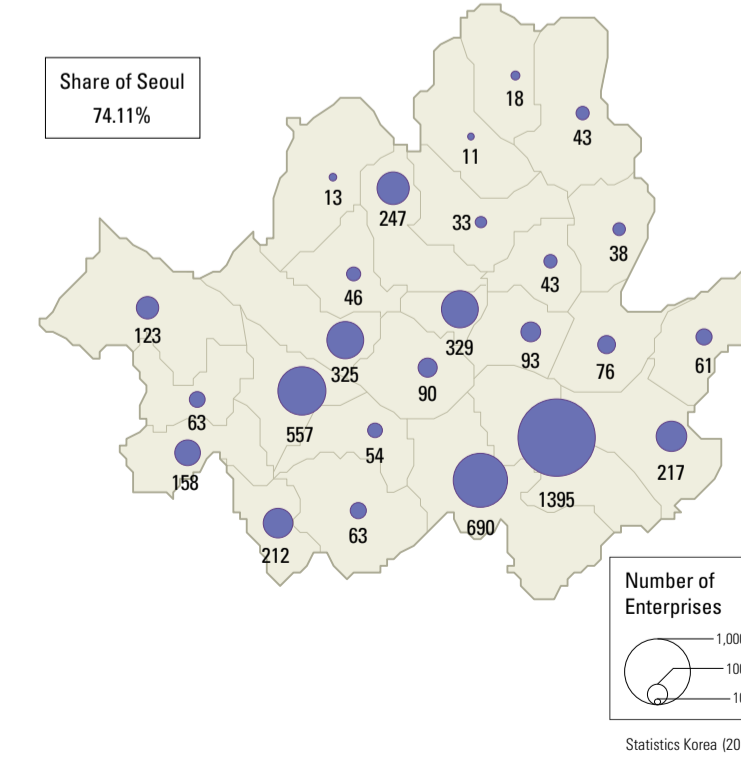
Activities of Head Offices, Holding Companies and Management Consultancy



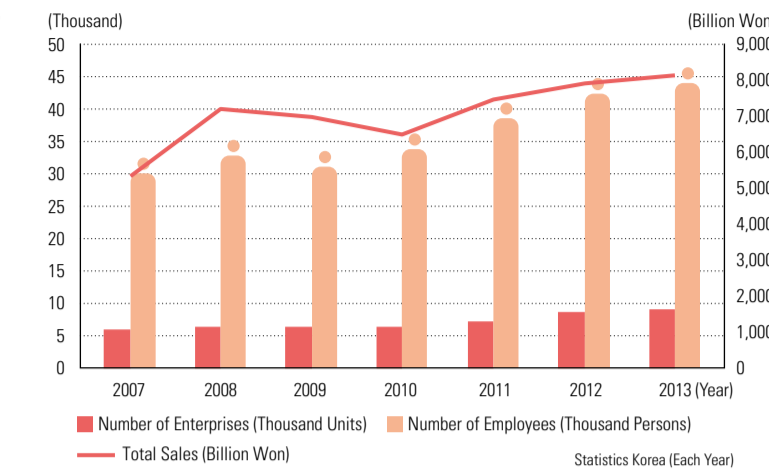
Accounting, Tax Preparation, Bookkeeping, and Payroll Services



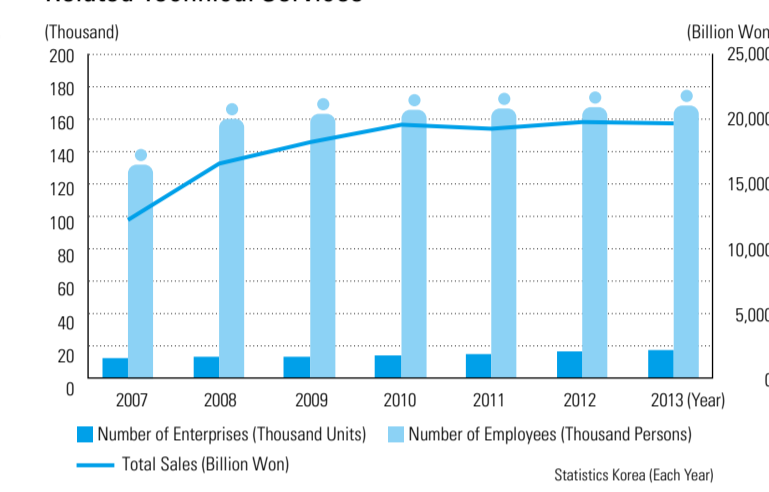
Activities of Head Offices, Holding Companies and Management Consultancy



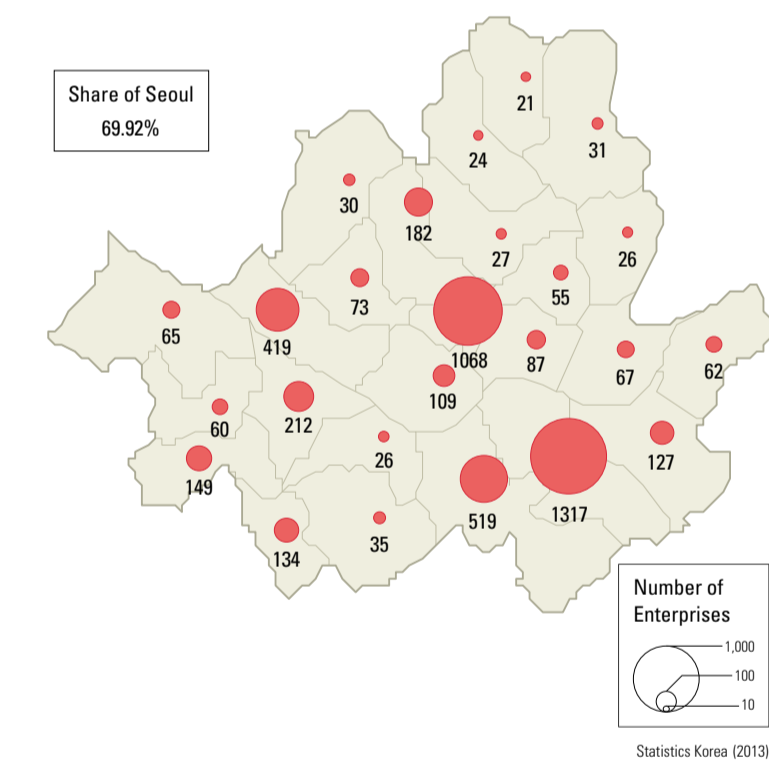
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